THE DEMOCRATIC STRATEGIST AND THE AMERICAN PROSPECT PROUDLY PRESENT: THE FUTURE OF THE SOCIAL SAFETY NET: PROGRESSIVE PERSPECTIVES ON THE NEW DEAL/GREAT SOCIETY ENTITLEMENT PROGRAMS WITH CONTRIBUTIONS BY HENRY AARON, BOB KUTTNER, BILL GALSTON, DEAN BAKER MARK SCHMITT, WILL MARSHALL, ED KILGORE, KIT RACHLIS AND ANDREW LEVISON
Progressives and the Future of the New Deal/Great Society Entitlement Programs: An American Prospect/TDS Forum

Introduction by Ed Kilgore

An important new online forum was announced this morning by The Democratic Strategist Managing Editor Ed Kilgore and American Prospect editor-in-chief Kit Rachlis:

This week and next, The American Prospect, in conjunction with The Democratic Strategist, is proud to sponsor a special forum titled: Progressive Perspectives on the Future of the New Deal/Great Society Entitlement Programs.

This unique forum will proceed through seven essays--from Henry Aaron, Andrew Levison, Bob Kuttner, Bill Galston, Dean Baker, Mark Schmitt, and Will Marshall--with occasional summaries from the co-moderators, Kit Rachlis of the Prospect and Ed Kilgore of the Strategist.

The distinctive goal of this forum is to offer a “progressives-only” debate on entitlements--a debate that is often avoided or distorted by the necessity to resist conservative ideological assaults on the New Deal and Great Society safety net or by media-driven elite “deficit hawk” campaigns that seem to begin with the assumption that America’s only fiscal problem stems from “unaffordable” or “runaway” entitlements.

That in the mainstream media “entitlement reform” has become a synonym for structural changes in entitlements designed to cut benefits, shift costs to beneficiaries, or abandon national responsibility for these programs, has inhibited an important intra-progressive debate over how the safety net can be enhanced, sustained, and harmonized with other important progressive priorities.

Progressive discussions of this subject are also frequently hampered by the conflation of substantive arguments about social policy itself with those focused on more practical matters of political strategy.

Now, we believe, is an ideal time to re-open and clarify the intra-progressive debate over the future of Social Security, Medicare, and Medicaid (and perhaps food stamps and the post-entitlement cash assistance program Temporary Assistance for Needy Families, which also form elements of the safety net). After all, declining federal budget deficits have taken a lot of the steam out of the “fiscal crisis” campaigns on the right and center-right. Moreover, the abandonment of any “grand bargain” budget negotiations for the foreseeable future (mainly due to conservative refusal to consider tax increases on the wealthy) has taken “entitlement reform” proposals—particularly those conditionally proposed by the Obama administration—off the table as well. And finally, the “wait and see” period we have entered with respect to implementation of the Affordable Care Act means we can now discuss long-term prospects for Medicare and Medicaid without assuming these programs are eternally defined by their present role in the “Obamacare” system.

We have asked a broad spectrum of progressive thinkers and writers to offer their thoughts on the future of entitlements. Some of these individuals are generally identified with a staunch defense of Social Security and Medicare as they are now, others fear entitlements violate
intergenerational equity or threaten non-entitlement “investments.” Participants What they all share, however, is a fundamental commitment to the preservation and strengthening of a robust social safety net as a central goal of progressive social policy.

Aside from the light this forum may cast on the options facing progressives in maintaining a strong social safety net and the economic climate needed to sustain it, we also hope the forum will offer a model for an enhanced intra-progressive discourse. With the Obama administration soon to enter its final stage—and with progressives coming out of the defensive crouch conservative political tactics have induced—it is likely that we will soon witness one of those periodic “struggles for the soul” that occur when values, goals, policies, strategies and tactics are all under active discussion.

As we all know, such discussions have in the past occasionally taken on a bitter tone of recrimination and name-calling, and have also become associated with the agendas of individual politicians and organized factions. In keeping with the philosophy of the Prospect and the mission of the Strategist, we have sought to foster an atmosphere of civil and empirically-based debate in which no one is presumed to have a monopoly on the mantle of progressivism and no one attempts to score political points by decrying either excessive orthodoxy or incipient heresy rather than achieving persuasion by careful, reasoned argument.

As a practical matter, after the initial essays in this forum have been presented, we will then entertain rejoinders and follow-ons from all participants—and if appropriate, from others. The forum will continue until all that’s worth saying has been said. We hope you enjoy, and most of all, benefit from, this discussion of Progressive Perspectives on the Future of the New Deal/Great Society Entitlement Programs.
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Triumph and Tribulation

By Henry Aaron

For U.S. progressives, the 20th century was a triumph. They fought for social insurance, and they won. They supported many income-tested benefits to ameliorate poverty, which became law.

In retrospect, one can identify at least four reasons for these successes. First, the Great Depression taught usually individualistic Americans that the harsh discipline of capitalism is acceptable only if softened with economic protections. Second, the monumental collective victory in World War II made clear to a traditionally government-phobic nation that collective action could deliver the goods. Third, starting in 1940, the United States enjoyed nearly four decades of almost continuous economic growth. Over that period, most people enjoyed improved private living standards even as they collectively helped others. Fourth, the defense budget shrunk from more than 10 percent of GDP after the Korean War to less than 4 percent after the collapse of the Soviet Union. That contraction allowed domestic spending to increase without the need to raise taxes.

These conditions endured long enough to seem normal, but they were not. The deceptions and failures of the Vietnam War began to undermine trust that government is honest and effective. Watergate accelerated disillusionment. The first oil shock in 1973 caused stagflation. Stock prices remained depressed for years. For a time it seemed that the economic triumphs of the Clinton presidency might initiate a new progressive era, but Clinton’s personal indiscretions, the Nader candidacy, and a politicized Supreme Court intervened.

The first decade of the 21st century was calamitous. George W. Bush pushed for and Congress enacted imprudent tax cuts just as the baby-boom generation began to retire. These cuts recklessly squandered fiscal surpluses laboriously created during the fiscally prudent 1990s. Two wars, one rashly and dishonestly begun and both mismanaged, sharply boosted federal government spending. Most of the fruits of economic growth accrued to the rich. The middle class languished. Unemployment and under-employment soared. Budget prospects deteriorated. Debt ballooned. Suddenly, the liberal successes--Medicare, Social Security, and income-tested programs such as Medicaid and Food Stamps--seemed to many to be unaffordable.

Meanwhile principled opposition to the very concept of social insurance reemerged. When initially debated, Social Security and Medicare elicited political Jeremiads, warning that these programs would destroy personal freedom. President Obama’s health reform legislation has elicited the same absurd warnings. But even more, it seems to have aroused near-hysteria among libertarian conservatives that they are engaged in political Armageddon, a final struggle against freedom-destroying statism.
With opposition to social insurance more intense than in decades, progressives need to consider carefully what extensions of social insurance they want to seek, what redesigns of the current system they should entertain, and what cutbacks in the current system they might tolerate in exchange for high-priority gains.

A key baseline fact should be kept firmly in mind: U.S. social insurance is parsimonious, compared to that of other nations or to the domestic past. Social Security pensions are 30-40 percent lower than the average of other developed nations. Furthermore, Social Security benefits have been and will be cut about 15 percent under legislation enacted in 1983. There is no good reason to cut them more. In fact, the arguments for raising benefits, especially for the very old, are compelling. A recent poll indicates that large majorities of Republicans, Democrats, and Independents are willing to pay enough in added taxes not only to sustain the current program, but also to raise benefits somewhat.

Medicare is also far from generous. It covers barely 60 percent of its beneficiaries' medical costs. Most people are driven to obtain supplemental coverage through other sources. The program could be improved and the lives of beneficiaries simplified if a super-Medicare program were offered at a premium that fully covers the cost of incremental benefits and thereby avoids any net impact on the federal budget.

To be sure, Medicare spending has been rising excessively. But the reason is not that benefits are generous—they are deficient in many ways—but rather because U.S. healthcare system is rife with cost-increasing incentives. No reform of Medicare operating in isolation can transform the whole delivery system. The best hope for controlling growth of Medicare spending is systemic reform of the entire U.S. payment and delivery system. That is just what the 2010 health reform legislation has begun. In the meantime, money could be saved and the program improved if more were spent to police abusive practices and to ensure that physicians and hospitals use new technologies only in ways that generate proven benefits, not in unapproved ways that pad providers’ incomes.

While the two major social insurance programs are lean, the arithmetic of ‘pay-as-you-go’ social insurance is sobering. The tax cost of these programs is directly proportional to growth of the wage base that is taxed to pay for them. Growth of both the labor force and earnings-per-worker has slowed recently. The result is that growth of the current wage bill has slowed. Slow growth means higher tax rates are needed to pay for benefits of given generosity. This arithmetic law is inescapable. When economic growth slows, annual taxes as a share of income required to pay for benefits goes up.

That holds directly for pensions. It is magnified in the case of health care because per person health care spending has outpaced income growth. The larger the gap, the worse the problem.

These arithmetic relations are the essence of what is loosely and inaccurately called the ‘entitlement problem.’ The most fundamental law of economics—the law of demand—predicts that people want to buy less of almost anything at high prices than they do at low prices, other things held constant. Few doubt that a similar principle governs political tastes. That is why supporters of social insurance—Social Security, Medicare, and Medicaid—should put at the top of their near-term political agenda measures to return the economy to high employment.
It is why they should put at the top of their long-term agenda measures to promote economic growth and to control growth of per capita health care spending. Not only does rapid overall growth, if broadly distributed, enable people simultaneously to enjoy rising living standards and support social expenditures, it also directly lowers the price of social insurance.

Trends in life expectancy pose a particular challenge to the design of social insurance. Longevity of those with higher-than-average education and incomes is rising a lot. Longevity of those with lower-than-average education and incomes is rising little or not at all. Not incidentally, those with comparatively high education and earnings are remaining economically active until later ages than in the past. Because the lifetime value of Social Security benefits is linked to how long one lives, a growing share of program outlays is going to those with comparatively high education and earnings.

These trends contain both a challenge and an opportunity. The challenge is to maintain the progressivity of Social Security. The opportunity is to modify support for the elderly in ways that encourage those who can do so without undue hardship to remain economically active until later ages than in the past. These changes could include reductions in Social Security benefits paid when people with above-average incomes claim benefits at an early age. Such changes should be combined with increased access to and support levels in Supplemental Security Income and with incentives to encourage employers to retain older workers and with income-related incentives for older workers to remain in the labor force. The higher earnings from increased labor supply would flow disproportionately to older workers who otherwise would leave work. Added income from earnings would flow primarily to those with low education and earnings who now retire comparatively early. The increased tax revenues from the added output that these workers would produce would contribute noticeably to closing projected budget deficits.

Nor should progressives resist Medicare changes that promote competition between properly compensated managed care organizations (MCOs) and traditional Medicare, provided that the rules of competition are designed to prevent premiums for traditional Medicare from being driven up by MCO cream-skimming.

Hovering over any such reforms are the projections that the Social Security and Medicare Hospital trust funds face projected long-term deficits. Earmarked revenues will not indefinitely cover all currently promised Social Security or Medicare Hospitalization benefits. Opponents of social insurance use these projected shortfalls to cry that the fiscal sky is falling and that neither program is sustainable. These fears are groundless. Small tax increases—combined, if politically necessary, with small and selective benefit cuts—would close projected gaps. The sooner that is done, the sooner this bogus argument can be laid to rest.

Abraham Lincoln famously said that “The legitimate object of government is to do for a community of people whatever they need to have done, but cannot do at all, or cannot so well do, for themselves in their separate, and individual capacities.” That was and remains the essence of the case for social insurance. The two financial crises of the past 15 years have underscored the continuing strength of that case—for progressives, but even more for, all Americans.
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WHEN PUBLIC OPINIONS COLLIDE

BY ANDREW LEIVISON

A major problem that confronts progressives and Democrats in dealing with deficits, entitlements and jobs is the extraordinary degree to which American public attitudes seem almost systematically incoherent. This marks a profound change from public attitudes during the early post-World War II era when there was a wide consensus on two major pillars of the New Deal:

First, at that time there was wide popular support for active government intervention in the economy to prevent mass unemployment. On a “common sense” level this was expressed in the idea that government had a fundamental responsibility to prevent mass unemployment, a responsibility codified in the 1946 Employment Act, and whose implementation was often visualized in somewhat romanticized images of depression-era programs like the Civilian Conservation Corps, the WPA and other direct job creation programs. On a more sophisticated level the support for active government intervention was reflected in the general intellectual embrace of the version of Keynesian economics presented in Paul Samuelson’s textbook. In this policy paradigm budget deficits and government spending were viewed as part of “managing aggregate demand” and “using budget deficits as tools of economic policy.” In the public writings of Samuelson and other MIT Keynesians, a commitment to balanced budgets was derided as little more than a relic of a bygone era.

Second, there was widespread support for a government sponsored social safety net to provide a basic level of economic security. In the popular discussion this safety net included not only Social Security and unemployment insurance but also government support for advanced education through programs like the GI Bill and the right to form trade unions which provided many blue-collar workers with job security and significant health and retirement benefits. In popular speech this new level of economic security was described as “the American Dream”; in more elite discourse, it was termed the “modern mixed economy” or the “Affluent Society”

Today, in striking contrast, neither of these core elements of the post-war New Deal receives clear majority support. Instead, across a wide range of topics and issues, public attitudes seem almost willfully perverse, with opinion polls showing simultaneous support for ideas and policies that are often logically incompatible

Consider the following:

When choosing between supporting Social Security and Medicare vs. reducing the deficit, most Americans say “both.”

80 percent of the public, for example, agrees that it should be the government’s responsibility to “provide a decent standard of living for the elderly”. Yet at the same time, 85 percent of Americans think “reducing the federal budget deficit is a worthy goal in and of itself,” 77 percent
think the cost of Social Security and Medicare will “create major economic problems in the next 25 years” and a majority believe that a “major overhaul of social security is necessary to substantially reduce the deficit.”

When opinion poll questions are more precisely formulated to require a direct choice between maintaining Social Security and Medicare benefits on the one hand and reducing the deficit on the other, however, the vast majority of polls do indeed show solid support for these two specific entitlement programs. On one recent poll, for example, 57 percent of Americans favored maintaining benefits for the two programs in contrast to only 32 percent who favored deficit reduction. Most polls find similar results.

But when the choice is made slightly more abstract and presented as one between reducing “government spending” in general versus deficit reduction, the results become a great deal more ambiguous. Asked if the government should increase taxes or reduce services to lower the deficit, in one poll 49 percent favored a conservative approach of reducing services while only 30 percent favored increasing taxes. Another poll found a refusal to choose: given a more specific choice between “cutting spending on entitlement programs like Medicare” or “increasing upper income taxes” only 18 percent endorsed cutting spending while 34 percent favored increasing revenues. The largest single group of the respondents, however, favored doing both at the same time.

In fact, the most common response to questions of this kind is for Americans to firmly refuse to make any hard or serious choices about how to reduce the deficit. On one recent survey, for example, 56 percent of Americans rejected raising taxes as a way to reduce the deficit but then an even larger 66 percent of the same sample also rejected cutting benefits. This same pattern of refusing to make clear choices is quite dramatically illustrated in the large number of polls in which people first emphatically claim that they want “a smaller government that does less” but then proceed to systematically reject cuts in virtually every major categories of government expenditure (except a few small and symbolic areas like foreign aid). A majority engage in what can only be called “magical thinking.” On one recent survey, 69 percent of Americans said that cutting “waste and fraud” would provide a full solution to the budget deficit while only 22 percent agreed that “painful choices need to be made.”

The same pattern is evident with choices between creating jobs and deficit reduction

When the question switches from a choice between reducing Social Security and Medicare benefits or spending in general on the one hand and reducing the deficit on the other to the parallel and closely related economic choice between creating jobs through government spending versus reducing the deficit, polls again provide support for both conservative and progressive views. In one poll, for example, only 38 percent of Americans supported increasing spending to create jobs while 54 percent preferred cutting spending and in another, 49 percent preferred to “cut government spending to match revenues” in contrast to only 36 percent who favored the alternative of “growing the economy to raise revenue.” Other polls, however, show opposite results. One survey, for example, found that 62 percent favored creating jobs in contrast to only 35 percent who favored reducing the deficit. And in “easier”
questions that only ask about support for desirable goals, 72 percent support “federal laws that would spend government money for programs to create a million jobs” or “put people to work on urgent infrastructure repairs.”

But as with the choice between preserving major entitlement benefits and deficit reduction, the most common public reaction to questions posing a direct trade-off between job creation and deficit reduction is a firm refusal to choose between these two objectives and a contrary insistence that both must be sought and achieved at the same time. When given the ability to choose between “job creation” and “deficit reduction” on lists of the “most important” issues or when indicating if their attitudes are basically favorable or unfavorable to these objectives on “issue thermometer” style polling questions, most Americans do not firmly support one goal and assign a low priority to the other but rather indicate that they very strongly insist on achieving both objectives simultaneously.

It is, of course, obvious that differences in question wording necessarily play a profoundly important role in producing this wide range of responses, but that alone does not provide a sufficient explanation. It is, in fact, impossible to examine the entire range of question wordings and still detect any genuinely coherent progressive or conservative viewpoint that unites all of them. The full range of data suggests that public attitudes are indeed deeply confused and incoherent.

There is, however, one key pattern in the data that helps to explain the apparent incoherence of the results: a very substantial sector of the American public does not understand or accept the basic Keynesian vision of how an economy operates.

The Inconvenient Truth: Americans don’t believe the traditional textbook perspective of Econ 101

When Americans are asked questions that test public understanding of basic Keynesian concepts such as “Do you think that cutting federal spending would create jobs or eliminate jobs”, opinions often split nearly evenly (in one survey by 41 vs. 45 percent) between the two choices. Moreover, when a third choice is added that cutting spending “will not have much effect either way,” a strong plurality of 41 percent chooses that option while another 18 percent think cuts will actually increase job creation. In this survey, only 34 percent agreed with the basic Keynesian notion that spending cuts will indeed reduce job creation.

This conclusion is reinforced by another recent poll which showed just how pervasive this lack of understanding really is. In answer to a question that asked a nearly perfect Econ 101 final exam query: “To help the economy recover from a recession, should the federal government usually increase spending, decrease spending or keep it about the same” a remarkable 55 percent of the respondents said government should actually decrease spending to help the economy recover from a recession while only 18 percent advocated an increase. When asked what would seem a remarkably leading question: if the federal government increased spending on infrastructure projects, would it result in more or fewer jobs, the respondents astonishingly split 49-51.

In short, a very substantial proportion of Americans simply do not see the economy in the Keynesian way that progressives quite naturally and reasonably assume that they do. Many
of the basic economic relationships and processes that progressives take for granted in their thinking are simply not shared by many ordinary Americans.

This is profoundly troubling because any politically effective argument against the conservative advocacy of balanced budgets and minimal government would logically seem to require that on at least some very basic and rudimentary level the public has to understand the basic Keynesian picture of how government spending can “prime the pump” of economic activity and prevent depressions or how the flow of income to the beneficiaries of entitlement programs supports the demand for goods and services that underlies prosperity. Very few white working class voters in the 1950s would have been able to explain the ideas in a college economics textbook with any precision but the majority were still certainly able to firmly and consistently endorse the basic progressive and Democratic notion that the government had a fundamental obligation—and also the actual ability—to provide reasonably full employment and a basic level of economic security.

**Neither “cherry-picking” the polls nor simply assuming widespread ignorance provides a solution**

Faced with the public’s failure to view or understand issues from a consistently Keynesian framework, progressive political strategists and commentators have generally responded in one of two ways. One group simply “cherry-picks” the polling data to find a subset of results that support their perspective and justifies this selective approach by arguing that most people must “really” believe a progressive, basically Keynesian perspective and are merely reciting superficial conservative clichés when they reply in ways that seem to support the alternative view. A second group of commentators accepts the deeply contradictory range of opinion data and draws from it the conclusion that most Americans simply do not understand enough about economics to have any real, meaningful opinions. In their view, the views most Americans do express are, in effect, merely superficial “wish lists” of things that sound nice or are parroted versions of dimly grasped clichés that provide no guidance for what they actually will support or vote for on Election Day.

Neither of these responses is satisfactory. There is, however, an alternative way of interpreting what the apparently contradictory opinion data indicates about the actual structure of public attitudes. In-depth polling and focus group research by Democracy Corps in its ongoing Economy Project has shown that for most ordinary Americans public attitudes are actually not cognitively organized into consistent progressive or conservative ideological frameworks but rather into what can be called sets of distinct “attitude clusters” or “attitude structures.” These are robust “bundles” of attitudes about a particular topic.

**How attitude clusters make sense of public opinion**

The Democracy Corps research identified three major attitude clusters that are important for understanding the public’s views on jobs, deficits and economic policy. They are (1) attitudes about government, (2) attitudes about debt and deficits and (3) attitudes about jobs, business and the economy.

The kinds of attitudes that Democracy Corps found within these attitude clusters commonly included the following:
• **Opinions about government:** Although people will grant that the government does indeed have a number of positive roles and functions, the most prevalent attitudes tend to be heavily negative. Government is perceived as inefficient and bureaucratic, as deeply corrupt and beholden to corporations and the wealthy and as committed to distributing money to undeserving people and imposing unpopular liberal ideas.

• **Opinions about deficits and balanced budgets:** Keynesian ideas are only rarely expressed. Far more frequent are expressions of deep disquiet based on analogies with the negative consequences of household debt and “going into hock.” There are also frequent expressions of concern that a large national debt weakens America’s position in the world, particularly in relation to potentially hostile nations like China.

• **Opinions about business, jobs and the economy:** There are expressions of support for business, particularly small business, but in recent years the most common attitudes are deeply negative views that have to do with the profound change in the way business operates. Job security is seen as a thing of the past, wages are lower and less reliable, people are just barely “making due” and are observing the disappearance of the “middle class dream” while the business community and the wealthy seem indifferent and even contemptuous of their distress. In the rust belt areas of the country the decades long “export” of industrial jobs to other countries and the consequent collapse of the surrounding communities continues to be deeply resented.

What makes the opinions in these basic clusters unique and distinct from other kinds of personal opinions is that when focus group leaders ask participants their opinions about these topics they receive an extended, spontaneous and deeply heartfelt monologue rather than a brief, straightforward reply. People tend to have firm, thought-out views on these basic topics that they buttress with a range of anecdotes, narratives and personal experiences. People often express a deep emotional commitment to the views they articulate.

In contrast, if a pollster or focus group leader asks a question that assumes the respondents actually conceptualize issues in a Keynesian perspective (for example, if focus group participants are asked a question like “is it right for the government to increase the current budget deficit in order to finance necessary investments in research and infrastructure”), the participants will not respond immediately and at length. On the contrary, they will pause to stop and think. They will consider the information contained in the question itself and then try to access and retrieve relevant information from various places in their memory in order to try to arrive at a conclusion. To an observer it is obvious that they do not have a fixed opinion on this question stored somewhere in memory; instead they are “deducing” or “computing” an opinion on the spot.

Although this description of the Democracy Corps research is very rudimentary, these two basic facts – (1) that people have a core of well thought out and firmly held ideas that are organized in clusters and (2) that the answers Americans give to questions that assume a Keynesian framework are very often actually computed on the spot by synthesizing a mixture of distinct positive and negative opinions they hold about government, deficits and the economy—actually goes a long way to explain the apparently incoherent nature of the poll results.
The implications for progressive strategy

This view has two very clear and important implications for progressive strategy.

First, significant elements of traditional progressive rhetoric no longer resonate with large sectors of the American public. Concepts like “the government should substantially increase spending in times of high unemployment in order to reduce joblessness” are not rejected only by doctrinaire conservatives. They are also rejected by many average citizens who simply do not grasp or accept the implicit economic model that is involved. Progressive solutions that are framed in traditional Keynesian terms like “stimulating the economy,” or arguments that recite the classic Democratic union hall speech about “the government’s responsibility to fight unemployment” or to “help the unfortunate” seem like distant echoes of past decades and not convincing responses to current problems.

Second, and perhaps more critical, the substantial degree of success the conservative economic narrative has enjoyed basically depends on invoking and then exploiting the widespread negative views about deficits and government in general in order to predispose people against both entitlement programs and job creation rather than directly debating about specific progressive proposals which are substantially more popular than their conservative counterparts. In particular, the conservative argument is based on appealing to a general prejudice that “deficits” and “government spending” are inherently bad things regardless of their purpose and also to the superficially plausible notion that job creation and the maintenance of a social safety net are in an absolutely rigid zero-sum relationship with deficit reduction. Because a substantial number of Americans accept these flawed premises, progressive solutions that are based on a Keynesian perspective have little chance of winning their support.

The alternative approach that is suggested by the Democracy Corps research is to recognize the conceptual centrality of the basic “attitude clusters” for many average Americans and to focus progressive messaging on directly comparing the specific progressive and conservative “solutions” to the current economic problems associated with them. For example:

• **Regarding Government**: the long-range conservative goal is actually to privatize and dismantle the social safety net including Social Security and Medicare, the progressive goal is to maintain them for future generations.

• **Regarding Deficits**: the conservative goal is to rely entirely on spending cuts to reduce deficits in order to insure permanently low or even nonexistent taxes on business and the wealthy; the progressive goal is to fund the necessary functions of government with a set of equitable, reasonably progressive taxes on all Americans and by closing special interest tax loopholes.

• **Regarding Jobs and the Economy**: the conservative goal is to remove all possible taxes, regulations, barriers to the “export” of jobs, support systems like unemployment insurance and protection of US workers from unfair foreign competition in order to maximize profits and revenues; The progressive goal is to balance the need for economic growth with insuring a basic minimum level of economic security for American workers.

In effect, what this approach does is to define the basic progressive agenda as a direct response to the specific policy prescriptions endorsed by the conservative view and in this regard it is
critically important to note one key fact: public opinion regarding this set of arguments does not exhibit the deep inconsistency and incoherence that plagues arguments that assume the public accepts a basically Keynesian view of the economy.

The three progressive alternatives above – (1) to defend the social safety net, (2) to fund government with fair, progressive taxes and (3) to moderate pro-corporate policies with support for working class needs—receive consistently high support across the vast majority of opinion polls. In contrast, the corresponding conservative alternatives – (1) to dismantle the social safety net, (2) to reduce upper income taxes, and (3) to promote “trickle down” economic policies to create jobs, generally do not poll well at all.

The progressive agenda does not have to depend on Americans understanding and accepting Keynes

Of course this does not mean that progressives can or should give up the task of trying to convince Americans of the validity of a progressive, essentially Keynesian economic perspective. The conservative “witches brew” of Ludwig Von Mises’ Austrian economics and Ayn Rand’s Social Darwinist philosophy cannot and must not be allowed to go unchallenged. But, at the same time, to the extent that progressives can shift the national political debate onto the playing field described above and away from the conservative framing that highlights popular hostility to deficits and government in general, their prospects for success will be significantly improved.

This approach also has one additional advantage: it is broadly compatible with the entire range of centrist and progressive views regarding the necessary scope and urgency of reforms in the New Deal entitlement programs. Although there are significant intra-Democratic differences about the urgency of particular fiscal reforms, there is indeed a basic agreement on the three progressive principles above. Although the present, quite unique forum has revealed that there is actually substantially more intra-progressive agreement about entitlement programs like Social Security and Medicare than many of the more brief and spirited commentaries might lead one to expect, significant differences still certainly do exist.

On the three goals or principles outlined above, in contrast, there is a broad, general consensus. This is a not inconsiderable advantage when it is considered that in coming years progressives and Democrats will repeatedly be confronted by a political opponent whose ability to maintain impressive message discipline during election years is one of its most powerful strategic advantages.
The Real Social Insurance Crisis
By Robert Kuttner

There is a severe and deepening crisis in American retirement and health care. But it is not the one that has dominated the public debate.

The supposed crisis that has gotten most of the attention is the rising cost of “entitlements,” specifically Medicare, Medicaid, and Social Security—defined purely as a budgetary issue. But the true crisis is that an increasing percentage of Americans lack financial security in retirement and pay far too large a share of their incomes for health care. The Affordable Care Act addresses some of the health insecurity without fixing the deeper drivers of cost.

The two crises are related. The staggering inefficiency in the system by which we provide health coverage leads most Americans to pay too much for too little. Social Security is a highly efficient system, but the rest of the pension system delivers far too much to middlemen and far too little to the elderly. In both cases, a more efficient and public system would produce more adequate benefits at less overall cost. The emphasis on the purely fiscal challenge produces demands for program cuts and diverts attention from the deeper failures of the system.

The Fiscal Reality and its Politics

Ever since the election of 1992, fiscal conservatives in both parties—and in third parties—have tried to make the federal deficit a central political and economic issue. In a series of articles and books beginning in 1982, the billionaire investor and conservative activist Peter G. Peterson began warning that Social Security was heading for a crisis of insolvency, which in turn would crash the economy. Peterson underwrote the Concord Coalition and later created the Peter G. Peterson Foundation to spread the budget alarms. In the 1992 election, the third party candidate, H. Ross Perot, made the federal debt the centerpiece of his campaign and briefly ran ahead of both major party candidates in the opinion polls.

But in the 1990s, both the debt crisis and the alleged Social Security crisis evaporated. Outlays continued to grow throughout the Clinton era, from $1.409 trillion in FY 1993 to $1.863 in FY 2001, but revenues grew even faster.

Supposedly, fiscal restraint gave the bond markets confidence in lower inflation, which in turn reduced interest rates and powered the recovery. In reality, the only connection between reduced deficits and cheaper money was in Fed Chairman Alan Greenspan’s mind. A lower deficit gave Greenspan the political cover to cut interest rates. This was a political bargain with the Fed, not a necessary fiscal one, but prosperity returned.

Full employment in the late 1990s also increased the receipts coming into the Social Security trust funds, which are financed by payroll taxes. Social Security’s supposed day of reckoning, when it would no longer be able to pay all of its benefits, receded by 13 years in just seven
years. In 2001, the federal budget was projected to be in surplus indefinitely, leading the Fed to worry how it would conduct monetary policy in the absence of Treasury securities to buy and sell.

What caused deficits to resurge under President George W. Bush had nothing to do with the aging of the population or the rising costs of social insurance and everything to do with two wars, two rounds of tax cuts, and the most severe financial collapse since 1929. But the economic crisis gave the supposed Social Security crisis a new lease on life, and once again calls were heard to cut Social Security outlays in the name of deficit reduction.

These calls, unfortunately, even reached the Obama White House. After a year of emphasizing public investment via the Recovery Act, Obama’s economic team advised him, prematurely, to pivot to deficit reduction. This led directly to the late and little lamented Bowles-Simpson Commission and put the President squarely in the camp of believers in the Grand Bargain that Pete Peterson and Robert Rubin had been promoting for decades: Cut Social Security and Medicare, come up with token tax increases that even Republicans can support, and the reduced deficit will restore confidence in the economy.

Three things were disastrously wrong with this medicine. It short-circuited the stimulus that the economy still needed (and needs). It put Obama on the side of austerity economics, which was ill advised as economics and bad as politics. And it undermined the clearest single issue differentiating Democrats from Republicans--the defense of Social Security and Medicare. When Obama’s advisers decided to claim more than a trillion dollars in unspecified savings in Medicare to fund much of the cost of the Affordable Care Act, the White House blurred those differences even further.

So the White House has repeatedly bungled the politics of defending America’s most valued social insurance programs. The Republican takeover of the House in the 2010 elections was one result. At this writing, Lake Research finds that 82 percent of all Americans oppose cuts to Social Security, including 83 percent of Democrats, 82 percent of Republicans, 78 percent of independents, and even 74 percent of self-described Tea Party members.

There are ways to shore up Social Security and reform medical care that don’t require taking income or services away from America’s elderly population. Before returning to those strategies, let’s take a closer look at how the elderly live.

The Retirement System

A generation ago, most large employers provided pensions as a fringe benefit of employment. The typical pension plan was a so-called “defined benefit” plan. Workers and employers paid into a fund. The retiree was guaranteed a fixed pension based on a formula based on years of service and earnings. The corporation administered the plan and bore the risk of adequately funding it. As recently as 1980, some 40 percent of American workers had such plans. Today just 7 percent do.

The economic slowdown of the 1970s squeezed corporate profits and led many employers to seek ways of shedding pension obligations. Large companies began substituting 401 (k) plans for true pensions. A 401 (k) is merely a tax-sheltered savings account. The risk of
hitting a down stock market or outliving one’s resources is entirely on the worker and retiree. In addition, many companies (and the private equity firms that bought and sold companies) used the technique of bankruptcy to loot worker pension funds by at least a trillion dollars. Corporations also played the game in the years of the booming stock market of extrapolating current annual returns, and pretending that their pension plans were overfunded—then when the crash came, they cried poor-mouth and cut them back.

The savings in 401 (k) plans are grossly inadequate to finance more than a few years of retirement. Work by Alicia Munnell, who the Retirement Research center at Boston University’s business school, reports that the typical worker on the verge of retirement (age 55-64) has just $42,000 in his or her 401 (k). If you convert that sum into an annuity, which guarantees a monthly payment as long as you live, it produces about $2,000 a year. The average Social Security benefit is just over $14,000 a year. An income of $16,000 for retirees is not luxurious. The rate of labor force participation in the United States has dropped sharply since the financial collapse of 2008, but the one exception is people over age 65, because fewer and fewer of the elderly can afford to retire.

Pete Peterson contends that “a substantial part of these [Social Security] retirement payments go to people like me.” But Michael Hilzik of the Los Angeles Times has calculated that the $1.14 billion in Social Security payments that went to recipients earning $1 million or more in 2009 amounted to less than one-fifth of 1 percent of all benefits. If we want to recoup that money, the most direct way is via the progressive income tax, not by messing with Social Security.

Despite the shrill political claims of retirees living it up at the expense of the young, almost two-thirds of all seniors depend on Social Security for 70 percent of their income. Fully 46 percent of elderly widows and other unmarried seniors depend on Social Security for at least 90 percent of their income. Social Security is financed by payroll taxes, which directly reflect wages. The real Social Security problem is a problem of inadequate worker earnings that have not kept up with productivity growth. If wages during the last 30 years had tracked the average annual increase in productivity growth, as they did during the first 30 years after World War II, the average family income would be well over $80,000, far more payroll tax receipts would be pouring into the Social Security trust funds, and the system would be in surplus indefinitely.

Nor has the cap on Social Security earnings subject to payroll tax stayed at its traditional level of about 90 percent of all earnings. As income of the top few percent has soared, payroll taxes now cover only about 83 percent of earnings. Lift that cap and much of the fiscal problem is solved. The projected 75-year deficit is around one percent of GDP, a shortfall that can be made up by modest tax increase on the well off. There is no good reason to cut benefits, much less to proclaim a crisis.

What the retirement system needs is a universal, portable pension, to make up for the collapsing private pension system and the minimal retirement income afforded by Social Security. Such a system would acknowledge the reality of today’s labor market, in which few people stay with an employer long enough to qualify for a traditional pension, and few companies even offer one. But until that day comes, Social Security is the core of retirement and needs to be defended.
For the generation that retired before the crash of 2008, inflated housing prices took some of the sting out of pension inadequacy. You could sell the family house, move to a smaller place and use the cash to subsidize retirement. But while housing values have begun to recover, it is unlikely that housing prices will soon inflate at the rate they did in the three decades between 1978 and 2008.

One class of worker who still has relatively decent pensions is public employees. But public pensions are at risk of succumbing to a contrived budget crisis of state and local government, in which government underfunds pensions and then claims that workers are getting too good a deal. Against these realities, the one entirely reliable part of our retirement system, Social Security, is more important than ever. Its supposed fiscal crisis is manageable.

**The Health Care System**

Medicare is indeed increasing in cost far faster than the general rate of inflation. But Medicare costs are rising because Medicare is embedded on a grossly inefficient larger health care system (in fact, its own costs are inflating at a slightly slower rate than those of the system as a whole).

The Affordable Care Act promises to slow the rate of increase in health care inflation. But even with some heroic assumptions, the Obama Administration projects that health care will continue to consume at least 17 percent of GDP. The usual explanation is the aging population, new and costly medical technologies, a tax-favored insurance system that is overly generous in what it covers, and doctors practicing defensive medicine for fear of malpractice suits. Yet every one of these causal factors is secondary. The primary cause of medical inflation in the United States is a commercialized and fragmented system, in which major players pursue sources of profit rather than cost-effective universal care.

This fundamental reality has defied four decades of cost-containment efforts, beginning with President Nixon’s reinvention of prepaid group health plans as commercial HMOs, and a long list of largely failed payment reforms and efforts to create incentives for physicians to communicate better, to shorten hospital stays, to order fewer tests, and to shift to generic drugs. The reason is that the system’s major players—hospitals, drug companies, doctor specialty groups—all behave as profit-maximizers. (With rare exceptions, this is true whether a hospital is nominally non-profit or for-profit.) This core reality has defied several decades of research demonstrating outrageous pricing practices by hospitals and indefensible variations in practice patterns. More refined cat-and-mouse efforts to constrain costs will continue to fail as long as the system remains a predominantly commercial one. Until the essential nature of health care changes, the infinite regress of cost-maximize and cost-contain will continue to evoke *Mad Magazine*’s “Spy Versus Spy.”

Other advanced nations have the same advances in medical technology and the same demographic pressure to reckon with (most have longer longevity than we do), yet they manage to cover the entire population for around 10 percent of GDP. Most advanced nations have better health outcomes, as well as a lower rate of medical inflation.

A universal, non-commercial system, by its very nature, delivers a lot more care for a lot less cost. Universal systems tend to invest relatively more in public health and prevention, which is not a profit-center for a commercial system. They encourage all people to receive basic care,
which saves huge sums down the line. They universalize standard protocols for such well-known conditions as diabetes and childhood asthma. They treat tests such as mammograms as public health screenings rather than commercial strategies.

As Medicare costs keep rising, Congress is in the habit of projecting future savings (such as reduced payments to physicians) that prove politically impossible to carry out. The worst outcome of all would be the conversion of Medicare and/or Medicaid to a voucher, which would leave ordinary people with truly barebones coverage that failed to cover needed care, and allow affluent people to supplement insurance out of pocket. Medicare would “save” money, but the savings would be entirely spurious.

Until we get serious about a universal and social health and retirement system, the “solution” to the perceived budgetary crisis will be to chip away at the inadequate benefits of the system that we have. In the case of public Social Security, what we have is efficient but insufficient. In the case of health coverage, it is both inefficient and inadequate.

**Generational Justice**

Much of the crusade to rein in costs of social insurance in the United States invokes our children and grandchildren. But the economic forces that are dimming the prospects of future generations include a slow recovery from a protracted economic slump, a lack of jobs that pay what used to be called a family wage, high costs of college, of homeownership, and of starting a family. Cutting Social Security and Medicare will do nothing to change these realities, and cutting the deficit could retard the recovery.

It’s not as if the groups clamoring for cuts in Social Security were proposing significant increases in spending on the young. There is a good case that we should be spending another two or three percent of GDP on outlays that would help the next generation, especially those who don’t have affluent parents to give them a private head start. Universal pre-kindergarten is urgently needed. Likewise, high-quality day care and after-school programs, both to help working parents and to enrich the cognitive and social development of children not from families that can purchase amenities privately. Community colleges are an important stepping-stone for the children of the non-rich, yet only 30 percent of students get their degree within seven years, because so many students are also working fulltime.

But although the sponsors of a grand bargain invariably invoke the well being of future generations, the proposed bargain would cut Social Security and Medicare for the sake of reducing projected deficits and increasing defense spending. The young are useful as symbols, but there is nothing in the grand bargain other than the vague and mistaken claim that reduced spending on social insurance for the elderly will somehow deliver a sounder economy of broader prosperity for the young.

America needs more, not less social income, for all ages. Instead of talking from the old, allegedly to give to the young, we need to restore adequate taxation on the affluent and build a more efficient system of health care and retirement, as well as social supports for young families. If these goals are currently outside what passes for mainstream politics, that doesn’t make them utopian. They are far more realistic as a remedy for what ails America than a grand bargain to cut the inadequate social insurance that we have.
THOUGHTS ON A CENTER-LEFT ENTITLEMENT STRATEGY

BY WILLIAM GALSTON

In a forum such as this, authors can dispense with many of the usual preliminaries. I take it we agree that suitably structured and regulated markets generate wealth more effectively than other economic systems but do not reliably produce either a reasonable distribution of prosperity’s fruits or an adequate level of security against life’s physical and financial vicissitudes. It is for that reason, we agree, that since the 1930s the United States has developed a web of programs to assist the poor and vulnerable, to make work pay and provide protection against unemployment, and to ensure older Americans a decent retirement. We agree that these programs reflect necessary and important public purposes that government may legitimately pursue. We agree, therefore, that the task before us is not to disable or dismantle these programs in the name of other purposes but rather to improve them and to do our best to ensure their perpetuation for future generations.

When we move from principles to particulars, the arena for discussion is vast. I will focus my remarks on two of the largest programs, Social Security and Medicare. Means-tested and work-related programs pose different but no less important challenges, and I’m confident that other participants in this symposium will do justice to them. Nor will I deal with creative new ideas such as progressively structured retirement savings programs on top of Social Security, which I support.

A philosopher once remarked that if you truly will an end, you must also will the means to it. So let me begin with the most obvious point: unless economic output, employment, and wages grow at reasonable rates over extended periods, it will be impossible to finance programs that provide adequate income for retirees and protect them against devastating health care costs. For that reason, it is important to structure and finance entitlement programs so as to minimize potential negative impacts on growth and employment. For example, employers compare the marginal cost of adding workers to the gains at the margin that those workers could produce. In making that comparison, they look at total compensation, not just money wages. There are limits, then, as to how high payroll taxes (and health insurance premiums) can rise before they discourage employers from hiring.

There is a further consideration. I am not the only contributor to this forum, I suspect, who believes that economic and productivity growth require robust public as well as private investment. The list of pro-growth public investments is long and familiar, ranging from education and training to infrastructure and research. At some point, competition for public resources between investments and entitlement spending may develop. Indeed, it may be imminent. The Congressional Budget Office’s analysis of President Obama’s proposed FY2014 budget shows that while mandatory spending would rise slightly as a share of GDP between 2012 and 2023, discretionary spending would fall from 8.3 percent of GDP to 5.0
percent (even with the sequester replaced). CBO’s updated baseline projections, which assume current policy, put discretionary spending at 5.3 percent of GDP in 2023—the lowest level of discretionary spending relative to GDP since at least 1962. (The bipartisan budget deal struck in December changes budget authorizations for fiscal years 2014 and 2015 but has no impact on authorized spending in the out-years.) No one believes that we can adequately defend our country and assist low-income Americans and invest in the future with only 5 percent of our nation’s output. Something has to give.

Many progressives believe that what should give way is the current limits on government: the United States should do all of the above, raising taxes and expanding government as needed to fund and implement them. Setting aside potential political obstacles, there are some fiscal and economic considerations that warrant caution.

**Most Americans believe that the U.S. public sector is substantially smaller than its European counterparts. In fact, the gap is relatively modest.**

Most Americans believe that the U.S. public sector is substantially smaller than its European counterparts. In fact, the gap is relatively modest. According to the OECD, U.S. government expenditures totaled 41.7 percent of GDP in 2011, compared to 45.3 percent for Germany and 44.5 percent for Norway. To be sure, some OECD countries (France and Sweden, for example) spent substantially more, but others (Japan and Switzerland) spent less. Although the United States is a bit below average in public outlays, it is not a conspicuous outlier. The same is true for public revenues, which now total about 36 percent of GDP.

There are two reasons why we are inclined to believe otherwise. The first is our system of federalism. Compared to most other OECD countries, the United States conducts a high proportion of its public activities—nearly half, judged by outlays and revenues—below the national level. It’s a mistake to compare our federal government to the more centralized national governments of Europe. Second, more than half our health care expenditures are private, compared to only one-third for the OECD as a whole. If ours were the same as the rest of the developed world, the gap between the size of our public sector as a share of GDP and theirs would disappear. (To be sure, if more of our health care were in the public sector, it might cost less—as it does everywhere else.) None of this proves that we couldn’t increase the size of government and level of taxation without damaging the economy. But it does suggest that our room to maneuver is more constrained than is often thought.

Two other factors point in the same direction. As I argued above, to carry out core functions, discretionary spending in the coming decade would have to be about 2 points of GDP higher than the president’s budget calls for, bringing total federal spending to roughly 24 percent of GDP. And second, spending increases in Social Security and health programs are scheduled to accelerate sharply after the current ten year budget window ends. Between 2022 and 2037, according to the long-term budget scenario CBO regards as the most realistic, these large mandatory programs will increase from 12.9 percent of GDP to 16.6 percent, forcing us to choose between unsustainable deficits and a huge increase the federal tax burden—that is, unless we were willing to rein in the rate of increase in these programs.
The CBO analysis allows us to quantify these alternatives. Under their realistic scenario, federal spending before interest payments would be 26.1 percent of GDP in 2037, up from 20.7 percent in 2022. In the absence of tax increases, federal borrowing would surge, boosting federal debt from 93 percent of GDP to 199 percent, and interest on the debt from 3.7 percent of GDP to 9.5 percent. Conversely, we could stabilize the debt/GDP ratio at the 2022 level by enacting, that year, an annual increase in federal taxes that CBO estimates to be more than 6 percent of GDP. (In 2013 terms, that would amount to about $1 trillion.) Avoiding both these unattractive futures would require us to work out some balance between spending restraints and revenue increases.

Most Democrats hope that full implementation of the Affordable Care Act will slow the rate of increase in health care costs, not just for a few years but permanently. I hope so too, and I have no basis for saying that these hopes are futile. But even if the ACA exceeded expectations, it wouldn’t materially change the budget picture during the coming generation. Here’s why. First, CBO’s baseline scenario already assumes no excess cost growth (above the rate of growth in GDP) for Medicare. Second, between now and 2037, the aging of the population will contribute far more to increasing federal health care outlays than will rising health care costs per beneficiary. And finally, the aging of the population accounts for all the increase in Social Security outlays.

In short, the surge in spending for mandatory programs over the next quarter century is primarily driven by predictable, irreversible changes in the age structure of our population. Americans 65 and over now equal about 23 percent of working-age Americans between 20 and 64; by 2037 they will be about 38 percent. And federal spending on programs in which they participate will rise commensurately, even if medical cost increases magically subside to the rate of general inflation and remain there indefinitely.

But so what? Maybe deficits and debt don’t matter. I think they do. The problem is that it is impossible to be precise about when they will have an unsustainable impact on interest rates, output, and public confidence. That’s why the best metric is a rule of thumb—namely, a debt/GDP ratio that stabilizes over economic cycles at a level consistent with economic growth and the ability to cope with financial and national security crises. Richard Kogan and Paul Van de Water of the Center on Budget and Policy Priorities offer an excellent discussion of this metric and its rationale: “Generally, the debt ratio should rise only during hard times or major emergencies and should decline during good times.... The debt ratio cannot rise forever. If it did, national savings available for private investment would shrink,... ultimately impairing productivity growth and living standards.... In a crisis, international credit markets might refuse to lend to the U.S. public or private sectors at a reasonable price.... All else being equal, a lower debt-to-GDP ratio is preferred. It reduces interest costs (allowing more of the budget to be devoted to actual programs) and gives policymakers more flexibility in economic and financial crises.”

Yes, deficits and debt matter, but not now.

There’s a fallback argument: Yes, deficits and debt matter, but not now. The spending restraints and tax increase enacted during recent years are enough to stabilize our finances over the next decade. So even if we eventually need to do something about Social Security
and Medicare, we don’t have to act anytime soon, and therefore we shouldn’t. Things could change, and we should wait until we can act on the basis of the fullest information possible.

I question the premise of this argument. Current ten-year projections rest on what I regard as unrealistic assumptions—about discretionary spending, payments to physicians under Medicare, and much else. But for the sake of argument, let’s accept the premise. The conclusion still doesn’t follow.

In the first place, there is broad agreement across party lines that any changes in Social Security and Medicare should honor the legitimate expectations of individuals at or near retirement and that individuals now ages 55 and over should be held harmless. So even if we legislated changes in these programs tomorrow, they would have no effect until 2023. And if we wait to make changes until then, they would have no effect until 2033, much too late to ward off the debacle I described earlier.

Second, there is an issue of generational equity. As the Public Trustees of the Social Security and Medicare trust funds argued in their 2013 report, it is important to enact a solution soon enough to maximize the number of generations who contribute to solving the problem: “Substantial further delay risks further concentrating the burdens of correcting the shortfall on the younger workers who already stand to be treated less favorably…”

Third, acting now offers a wide range of programmatic, social, and fiscal advantages. In a recent statement, Robert Greenstein, president of the Center on Budget and Policy Priorities, put the case this way: “Although Social Security faces no imminent crisis, policymakers should act sooner rather than later to restore its long-term solvency. The sooner policymakers act, the more fairly they can spread out the needed adjustments in revenue and benefits formulas, and the more confidently people can plan their work, savings, and retirement. Acting sooner also helps the budget as a whole by modestly reducing federal borrowing in coming years. This will contribute to helping stabilize the ratio of debt to GDP—a key test of fiscal sustainability—and limit the overall interest costs that we must pay.”

And finally, the longer we wait, the more abrupt and draconian the necessary changes will be. A CBO analysis suggests that as a share of GDP, the revenue increases and/or spending cuts needed to stabilize the debt/GDP ratio at current levels would roughly double between 2013 and 2025. That is why, in the words of the Social Security and Medicare trustees, “[T]he amount of time remaining to enact a financing solution that is both reasonably balanced and politically plausible is far less than the amount of time projected before final depletion of Social Security’s combined trust funds…. Each passing year of legislative inaction reduces the likelihood that a solution can be found that is acceptable to lawmakers on both sides of the aisle.”

It’s important to understand Social Security’s dimensions—and the nature of the problems it now faces. As things stand, program outlays will increase from 4.2 percent of GDP to 6.2 percent by 2037, and from 11.3 percent of workers’ taxable earnings to 17.0 percent. According to the program’s Trustees, the 75-years actuarial deficit amounts to $2.72 percent of taxable payroll, which is 21 percent of the non-interest income the program is scheduled to receive. By historical standards, these gaps are significant. As the public trustees put it in their recent message, “Social Security’s long-term income shortfall is now larger than it has
been at any point since before the landmark program reforms of 1983. …even if a Social Security solution were enacted today and effective immediately, it would require financing solutions that are substantially more severe than those enacted in the 1983 program amendments.”

One part of the program--disability insurance--is in much worse shape. While trust fund backing ordinary retirement payments won’t be exhausted until 2035, the disability fund faces depletion in 2016. While the two funds are legally distinct, there are compelling reasons to deal with disability in the context of overall reform.

So what should we do? The principles that should guide reform are reasonably clear and uncontroversial (I hope): the measures we adopt should preserve and enhance the program’s universality, progressivity, and intergenerational equity while minimizing the negative consequences for growth and employment.

The following are some steps consistent with these principles:

• When Social Security began, it did not include any state and local government workers. Today, despite legal changes, some remain outside the system. As state and local pension systems come under increasing pressure, these workers are vulnerable. Including all new state and local public employees in Social Security and would give them greater long-term security and would modestly bolster the system’s finances during the next few decades.

• Since 1977, the financial structure of Social Security has rested on the assumption that wages subject to the payroll tax would represent about 90 percent of the kinds of earnings covered under the law. For various reasons, including the explosion of wages at the very top, taxable wages now amount to only 83 percent of covered earnings. Over time, we should increase the cap on taxable wages to bring 90 percent of such earnings back under the cap.

• Two measures would increase the progressivity of Social Security while reducing financial pressures on the system. For low-income beneficiaries, we should institute a minimum benefit such that no one qualifying for benefits would receive annual payments amounting to less than 125 percent of the poverty line. And for beneficiaries above the median of earnings, we should change the current formula for calculating initial benefits to reflect, on a sliding scale, consumer prices as well as wages. This would mean that initial benefits for workers in the 30th percentile would continue to be based entirely on wage inflation; for workers in the 60th percentile, mainly on wage inflation; for those in the 90th percentile, mainly on price inflation. Formula parameters would be set to ensure that (a) progressive indexation amounts to no more than half the package needed to restore the system’s 75-year actuarial balance; and (b) workers at the top continue to receive higher benefits than those in lower earnings percentiles.

• Because employers make hiring decisions at the margin on the basis of total compensation rather than wages and salaries, steep increases in the payroll tax are likely to depress employment growth. While the system needs more revenue, raising the payroll tax rate is not the best way to go. Along with many others, I favor a broad-based carbon tax yielding a revenue stream sufficient at least to keep the payroll tax rate where it is now, and preferably to roll it back. I do not favor eliminating the payroll tax altogether, however, because the link between individual contributions and individual benefits strengthens the moral basis of Social Security--and the program’s political support.
Medicare raises more complicated issues, in part because of the diversity of its funding structures. One program—Hospital Insurance (HI)—includes a trust fund that will be exhausted in 2026. The other big parts of Medicare—for physician and outpatient services and for prescription drugs—are funded in part by premiums but mostly by general revenues. As CBPP's Paul Van de Water points out, these programs aren't and can't go "bankrupt"; the term simply doesn't apply to the way they are funded.

That doesn't mean that they pose no fiscal challenges. As the Trustees put it in their 2013 report, “Concern about the long-range financial outlook for Medicare and Social Security often focuses on the depletion dates for the HI and OASDI trust funds—the times when the projected trust fund balances under current law will be insufficient to pay the full amounts of scheduled benefits. A more immediate issue is the effect the programs have on the unified Federal budget prior to depletion of the trust funds....”

The Trustees proceed to quantify this concern: “In 2013, the projected difference between Social Security’s expenditures and dedicated tax income is $79 billion. For HI, the projected difference between expenditures and dedicated tax and premium income is $26 billion. The projected general revenue demands of SMI [Parts B and D of Medicare] are $239 billion. Thus, the total General Fund Requirements for Social Security and Medicare in 2013 are $344 billion, or 2.1 percent of GDP. Redemption of trust fund bonds, interest paid on those bonds, and transfers from the General Fund provide no new net income to the Treasury, which must finance these payments through some combination of increased taxation, reductions in other government spending, or additional borrowing from the public.... [T]he difference between cost and revenue ... will grow rapidly through the 2030s as the baby boom generation reaches retirement age ..., equaling 4.5 percent of GDP by 2040.”

I can think of no reason why individuals who earn much less should be asked to subsidize high earners’ health care in retirement.

I have no comprehensive cure for this expanding revenue gap. But I do have a radical proposal for a piece of it—and a thought-experiment for the rest. Whether they know (or care to admit it), most highly educated professionals are in the highest earnings decile, and many of them are on the verge of qualifying for membership in the dreaded “1 percent.” I can think of no reason why individuals who earn much less should be asked to subsidize high earners’ health care in retirement. For those at the top, the benefit of Medicare should be guaranteed issue—period. When they sign up for Part B and Part D, the government should calculate the investment value of the payroll tax contributions they made during their working lives, and then set premium levels to close the gap between those contributions and the actuarial value of the benefits they are expected to receive during their retirement.

During the recent struggle for universal health insurance, “Medicare for all” was a rallying-cry in some quarters. If the Affordable Care Act works well, I wonder whether in the long run, “Obamacare for all” might not be the best way forward—guaranteed issue, a choice among programs, and progressively structured subsidies, backed by strategic regulations. The principled argument for maintaining two health insurance systems—one mainly for retirees, the other for working age families—is not evident, at least to me. But I await instruction from others.
Readers have no doubt noticed that I’ve focused on entitlements as a policy challenge and have said nothing about political strategy. I’m perfectly willing to engage on the political issues. But I think our first task is to think through the policies that can sustain the programs we care about in a manner consistent with our principles. While it’s naïve to imagine that good policies are always good politics, it’s even more naïve to imagine that the short-term imperatives of coalition management will be consistent with the policies we need to solve the long-term problems we confront.
FISCAL POLICY, THE LONG-TERM BUDGET, AND INEQUALITY

By DEAN BAKER

The American Prospect deserves credit for sponsoring this forum. It gives progressives an opportunity to engage in a serious discussion about many of the key economic, social, and political issues facing the country. At least as important, it allows us to tie them together in a way that generally is not done but is essential in a serious discussion.

Asserting that budget policy, fiscal policy, and inequality are integrally linked is not just rhetoric. In fact, they are inextricably tied through economic relations that are too little appreciated. The failure to appreciate these ties often leads to policies that are ineffective or even self-defeating. This essay describes how the policies are necessarily linked beginning with fiscal policy and macroeconomic policy. It then turns to a discussion of social insurance programs and inequality and the long-term budget.

Macroeconomics and the Iron Truths of Accounting Identities

Most college-educated people have been through an intro econ class where they were punished with the basic macroeconomic accounting identities. They then quickly forget them as soon as the class was over. Unfortunately, this appears to be as true for people engaged in economic policy debates as for the larger public.

The good or bad thing about accounting identities is that there is no way around them: They must be true. One of the basic macroeconomic accounting identities is that net national savings must be equal to the trade surplus. This means that the total of private and public savings, net of investment, must be equal to the trade surplus. For algebra fans this means that:

\[(S-I) + (T-G) = X-M;\]

Where S is the sum of all private savings, both household and corporate. I is investment, which means both corporate investment and the construction of residential housing. T is taxes and G is government spending, so T-G means the budget surplus. (Since we have been running large deficits in recent years, T-G has been negative.)

X is exports from the United States, while M is imports into the United States. This means that X-M is the trade surplus. This number has also been a large negative in recent years, as the country has been running a large trade deficit.

I apologize for the detour to intro macro, but it is important that people understand the logic of this accounting identity. If the country has a trade deficit, then it means we have negative national savings. There is no way around this fact.
If we have negative national savings then either the government must have negative savings, the private sector must have negative savings, or both sectors can have negative savings. Again, there is no way around this fact.

Currently our trade deficit would be between 4-5 percent of GDP if the economy were at full employment. This comes to $650 billion to $800 billion a year in the current economy. This means that the budget deficit, plus whatever negative savings we see on the private side, must sum to between $650 billion to $800 billion.

If the deficit hawks got their dream and we somehow balanced the budget, and the trade deficit stayed the same (I'll come back to this), then it would mean that the private sector would need to have negative annual savings of between $650-$800 billion. In most of the post-war period private sector savings have been close to zero, with households providing the savings businesses needed to finance investment.

The two notable exceptions were during the years of the stock bubble at the end of the 1990s and the housing bubble in the last decade. In both cases household savings plummeted as the wealth generated by the two bubbles led households to increase their consumption at the expense of their savings. Both bubbles also led to an increase in investment. In the stock bubble years, the uptick was in corporate investment. In the housing bubble years, residential construction reached post-war highs measured as share of GDP.

It is difficult to imagine that anyone would actually advocate bringing back bubbles to sustain the economy. Furthermore, since their main impact was on boosting consumption at the expense of savings, one result of the bubble driven growth of the last two decades was that households did not save as much as they would have otherwise, leaving them less well prepared for retirement. That can hardly be a desirable outcome.

The alternative way to have negative savings on the private side is to have an investment boom. That might be wonderful, but that is not a story for the real world. The investment share of GDP has varied little over the last 50 years. Even at the peak of stock bubble years, when concerns over the Y2K problem spurred software investment and people threw money at every crazy Internet start-up, non-residential investment rose by just 1.4 percentage points above its 12.7 average share of GDP over the past 40 years.

![Investment as a Share of GDP](image-url)
If we can’t expect private savings to turn negative in a big way, and we keep the government budget balanced, then there is one other way for the income accounting identity to hold. If the economy shrinks due to insufficient demand, then savings will fall more than investment. At some point, this will give us a large enough excess of private investment over private savings for the national income accounts to be in balance.

If it is not clear, we are bringing the national accounts into balance in this story with a shrinking economy and rising unemployment. That is what happens if we run a balanced budget in the context of having a large trade deficit. The deficit hawks may yell and scream that they don’t want to shrink the economy and have mass unemployment, but this is what they will get if we have deficit reduction without a clear plan for reducing the trade deficit.

Of course, the trade deficit is not a law of nature. The trade deficit exploded in the years following the East Asian financial crisis. It fell back substantially in the years from 2006 until the recession. The main factor in both cases was changes in the value of the dollar: first a sharp rise following in the wake of the crisis and a gradual decline in the years after 2002. The trade deficit clearly responds to changes in the value of the dollar. The high dollar that we saw after the East Asian financial crisis made U.S. goods less competitive in the world economy. When it fell back to more normal levels, the trade deficit began to shrink.

Many actors in policy debates have argued for alternative methods of reducing trade deficits, such as new trade agreements or industrial policy. In fact, the former have often increased the trade deficit. Well-designed industrial policy can raise productivity and increase competitiveness, but even in a best-case scenario this is a long-term outcome. Even with optimistic assumptions, currency adjustments will swamp the plausible impact of industrial policy.

This means that if we want to see a substantially lower trade deficit, we should want to see a lower valued dollar. This should be front and center of every progressive’s agenda.
If we don’t see a drop in the dollar, then we should anticipate that the large trade deficit persists. In this case, our alternatives are large budget deficits or unemployment. That’s it: Those who are not prepared to push for a lower valued dollar and also want a balanced budget, want more unemployment.

Flipping this over, we can attain full employment by running large budget deficits. Given the size of the current trade deficit, budget deficits of the size needed to bring the economy back to full employment would probably be in the neighborhood of $1 trillion a year or 6 percent of GDP. The U.S. government can certainly run deficits of this size for a very long time.

In the downturn financial markets have shown little reluctance to hold U.S. government bonds at extraordinarily low interest rates, in fact the real interest rate on long-term bonds has been close to zero. This makes borrowing for both short-term stimulus and longer-term investment measures attractive. This would mean not just physical infrastructure (including retrofitting buildings to make them more energy efficient) but research and development in a wide range of sectors.

Since the main point is to stimulate demand, we can also experiment in various areas. For example, we could allocate money to allow some cities to offer free bus fares for two years. It would be interesting to see the extent to which bus travel can be encouraged if it were simple, quick, and free. The potential reduction in greenhouse gas emissions would be substantial.

We could also use public funds to encourage shorter work weeks/work years. It is important to realize that our central problem right now is too much supply, not too little. Traditional stimulus addresses this problem by increasing demand. We can also address the problem by giving employers an incentive to reduce work hours in family friendly ways. We work 20 percent more hours on average than do people in Western Europe. If our work years were comparable in length to those in Western Europe, unemployment would be immediately eliminated.

Of course such a transition could not be accomplished overnight, but there is no reason that government funds could not be used to provide incentives for shortening work hours with policies like paid vacations, paid family leave, and paid sick days, rather than paying workers unemployment benefits. There is already a short-work program attached to the unemployment insurance system in 25 states (including New York and California), but the take-up rate on this program is low. If the problem is that we don’t want all the goods and services that we are capable of producing then a simple answer would be to produce less and let people share the leisure.

If this discussion seems dismissive of deficit concerns, it is because it is based in economic logic and not Washington generated hysteria. We are not and cannot be Greece. That is not a subjective assessment of the relative strength of the U.S. and Greek economies, where we could turn out to be Greece at some point in the future. It is a statement about the fundamental differences in our currency regimes.

The United States has its own currency. Greece does not. If we actually saw the investor panic that the Washington deficit hawks crave, we could always have the Federal Reserve Board just buy up U.S. debt. Greece did not have this option with the euro. This could create inflation, but
only in a context where the country was seeing a serious problem of excess demand—too many dollars chasing too few goods and services. Inflation does not just drop out of the sky.

This means that the idea that we have to fear investors turning on a dime and running from the dollar is nonsense. We could envision scenarios in which we overheat the economy and have serious problems with inflation, but that will not happen overnight and it certainly will not happen in a context where we are 9 million jobs below the trend level of employment as is the case presently.

There is one other crucial point about the need to get to full employment. Low levels of unemployment disproportionately benefit those in the bottom half, and especially the bottom third of the income distribution. There is no better policy than to ensure that those at the middle and bottom share in the gains of economic growth. In fact, the decision to have fiscal and monetary policies that do not bring the economy to full employment can be viewed as a decision to run policies to redistribute income upward, since that is their clear effect.

Long-term Budget Deficits and Social Insurance

While there may be no reason to worry about the budget deficit in the near or even intermediate future, the longer-term projections showing large deficits should provide some cause for concern. It is worth noting that even these longer term projections show much smaller deficits now than they did a few years ago due to the slower projected pace of health care cost growth. Nonetheless there are still substantial, if manageable increases in spending projected over the next two decades. The main sources are, of course, Social Security and Medicare.

It is difficult to see how anyone can get be too concerned about the projected path of Social Security spending. It went from 4.1 percent of GDP in 2000 to 5.1 percent in 2013. It is expected to rise by another 1.1 percentage point of GDP over the next twenty years. It’s not clear why anyone would view this as a major problem.

It is also worth asking if we think the problem is that seniors have too much money now. Their median income is less than $20,000 a year. With the collapse of the defined benefit pension system and only a small fraction of the population able to accumulate significant assets in 401(k) or other retirement accounts, we should be asking whether benefits should be raised rather than lowered. Ideally, we would have a second leg to the retirement income system where middle- and moderate-income people can accumulate savings to help support themselves in retirement, but we don’t have that now for most retirees or near retirees.

Unless and until we do have a system that allows most workers to supplement their retirement income, we must recognize that Social Security is the only real retirement system for much of the population. (It provides more than 90 percent of the income for 40 percent of seniors.) The program is projected to face a shortfall in the years after 2033. Inequality is a big part of this story. If so much income had not been redistributed upward over the past three decades, placing it above the cap on taxable payroll, the projected shortfall would be 30-40 percent smaller.

The other reason inequality is important to the solvency of Social Security is that workers willingness to pay taxes will depend in part on the growth of their wages. If workers were getting their share of productivity growth so that real wages were rising 1.0-1.5 percent
annually, it is likely that they would be more receptive to taking back 0.1 percentage points of this increase in the form of higher payroll taxes. It is much better to get a 1.5 percent wage hike and a 0.1 percentage increase in the payroll tax than no increase in wages and no increase in taxes. In short, in a context where workers are getting their share of the economy’s growth, it would be difficult to see the problems facing Social Security as anything other than trivial.

This gets us to Medicare and other government health care spending. The figure below adjusts CBO’s long-term deficit projections assuming that per person costs in the United States were the same as in Germany or the U.K. In either example, we would be looking at huge long-term surpluses in the primary budget.

Progressives should be upset by the projections of exploding growth. Essentially, they imply that we will be devoting an ever-larger share of the economy to paying rents to providers in the health care industry. While progressives must be ardent defenders of quality health care, we should also be vigilant in attacking rent-seeking that redistributes an enormous amount of income upward and is often harmful to the public’s health. If our per person health care costs were comparable to those of any other country’s, we would be looking at huge budget surpluses, not deficits.

Just to take the most obvious, doctors in the United States earn roughly twice the pay as the average for other wealthy countries. There is no reason to believe that we get better quality care for these generous paychecks. The country could save close to $80 billion a year (0.5 percent of GDP) if our doctors were paid the same as doctors in Europe or Canada. We could get much of the way towards bringing doctors’ pay in line with other countries by exposing them to international competition. It is incredible that we openly discuss bringing immigrant STEM workers, nurses, even farmworkers to bring down the pay in these sectors, but no one ever raises the issue of bringing in foreign doctors.

There is no reason that progressives should not make opening up the medical profession to market forces as a big item on our agenda. Doctors are the largest single occupation among the one percent, and virtually all of them are in the richest 5 percent of workers. We can make
the economy more efficient, saving trillions of taxpayer dollars in the decades ahead, and promote equality by bringing the pay of our doctors in line with the rest of the world.

The same applies to drugs. We spend more than $300 billion a year on drugs that would probably not cost one tenth as much in a free market. The reason is government granted patent monopolies. The justification for patent monopolies is that they are needed to finance research. However there are much more efficient mechanisms to finance research.

Everyone who has had an intro economic class can identify all the bad things that happen when the government imposes a tariff or quota that raises the price of a product by 20 or 30 percent. All the same bad things happen and more when the government grants a patent monopoly that allows drug companies to charge prices that are thousands of percent above the free market price. The situation is made even worse by the problem of asymmetric information: drug companies know far more about their drugs than do patients or even doctors.

In this context we should expect to see drug companies mislead the public about the safety and efficacy of their drugs and to promote them for inappropriate uses. This is of course what we do see. The result is that people often get bad care and needlessly suffer injury or even death. That’s what happens when the government intervenes in the market.

There is a much longer list of ways that we can get our health care costs in line with the rest of the world. All will look like political non-starters. That should not be relevant in the context of the question asked here.

We do have a problem of out of control health care costs for both the public and private sector. Progressives should have our to-do list to throw out in public wherever and whenever possible. Let the Peter Peterson types tell us that we can’t do anything about doctors’ salaries because they are too powerful.

The point is that we need a clear answer to the people who are scared by the projections of exploding health care costs. There are ways to deal with these costs, if the rich and powerful would just let us. We do not have worry about lack of ideas. Our problem is that lack of political power to implement them.
“Entitlements” Are Just a Budget Category

By Mark Schmitt

To think clearly about “entitlements” and their role in social policy, we need to strip away the moral and emotional barnacles that have attached themselves to a simple word describing a budget category. Entitlements differ from other government spending in only one way: The amount spent is determined by the rules of the program (who is eligible, what benefits are promised) rather than by the amount set by Congress each year. Changing their costs requires changing the rules, and the projected savings may not materialize for years, which creates the need for long-term budget plans.

But the word has long been freighted with more significance than it merits. Remember the welfare reform fights of the mid-1990s, when “ending the entitlement to welfare” was the one non-negotiable position of conservatives? The implication was that individuals had been “entitled” to welfare benefits regardless of their behavior, and that ending the entitlement would force those individuals to adopt “responsibility.”

In reality, individuals never had an automatic entitlement to benefits. States could and did cut off or reduce benefits for almost any reason at all, including having an additional child while on welfare or failing to seek work. It was an “entitlement” only because of the program’s budget structure—states got money from the federal government calculated as a percentage of their own spending on welfare. And after 1996, and continuing today, when the “entitlement” had been ended, states still get money from the federal government, but now as a fixed amount—a scheme that Senator Marco Rubio recently proposed to apply to almost all federal social programs. The alternative to “entitlement” wasn’t “responsibility.” Because entitlements are a budget category, the alternative was a different budgetary approach, one that showed its fatal weakness in the long recession.

Something similar, in reverse, has happened on the left during the period after President Obama moved toward embracing a budgetary “grand bargain,” in 2011. Entitlements have been elevated from a budget category to a moral cause. Throughout the spring of 2013, I got emails from organizations such as the Campaign for America’s Future, all imploring me to sign petitions demanding that Obama stay away from Social Security, Medicare and Medicaid in any budget negotiation. More than two million people signed. (I wasn’t among them.) Why should the big three entitlements be untouchable, and not all the other programs—K-12 and higher education, nutrition, housing, energy research—that were cut and cut again over the last three years, and, that, in total, are now at the lowest level as a share of GDP since the Eisenhower years? And shouldn’t there be more to the liberal message than just, “Don’t touch entitlements”? While the big entitlements provide economic security, they do very little to address “predistribution”—that is, incomes, opportunities, and working conditions.

The liberal devotion to the big three entitlements has two roots. One is the widely accepted assumption that only programs that are universal, or that “benefit a broad, cross-class constituency,” as Harvard political sociologist Theda Skocpol put it in her 1993 book, The
Missing Middle, can attract lasting political support in the U.S. Medicare, Social Security, and to a lesser extent Medicaid (which pays the nursing home bills for millions of middle-class families) meet that criteria. The corollary is the aphorism, “programs for poor people are poor programs,” attributed to the English social researcher Richard Titmuss. Broad support for an active federal government depends almost entirely on these near-universal programs, this argument holds, and without them, voters would perceive most government programs as for poor people or minorities. The recent focus on “the 99%,” which creates a cross-class narrative by suggesting that almost all Americans have suffered while the top 1% has made huge gains, is correct about the takings of the super-rich, but also obscures the enormous difference in living standards between those in the top half of the 99%, and the 40% of households in or near poverty, who gained almost nothing during the decade before the economic crash.

But there’s plenty of evidence, especially from the subsequent twenty years, that casts doubt on Skocpol’s thesis. The State Children’s Health Insurance Program (CHIP), enacted in 1997, serves only low-income working families, but has been extraordinarily popular. Republican efforts to cut the program in 2006 hurt them in that year’s elections, Bush’s vetoes of CHIP expansion were unpopular (polling showed 72% support for the program), and Obama signed a long-delayed CHIP expansion on his 14th day in office. Tax credits for low-income families, education programs, and many other benefits that don’t reach a broad cross-class constituency have been resilient and popular. Perhaps this is because children are involved, perhaps it’s because they are seen as rewarding work or responsibility, or perhaps it’s that the programs are perceived as benefiting low-income whites as well as minorities. Whatever the reason, targeted programs aren’t always political losers. Unconditional cash transfers to poor adults, without regard to work, may still be a tough sell, but many other mechanisms to lift the economic prospects of the poor have proven popular and resilient. The more recent Republican effort to decimate the Food Stamp program, now known as SNAP, which seems to have levels of public support comparable to CHIP, will provide a further test of the proposition that programs that are not universal are uniquely vulnerable.

There’s a second, more tactical, reason that liberals are tempted to treat entitlements as untouchable. In 2005, when George W. Bush, relishing his narrow reelection to the presidency, declared that, “I have political capital and I intend to use it” to push through privatization of Social Security, Democrats and liberals panicked, but soon figured out that the only response was no response. Resisting the temptation to offer their own alternatives to Bush’s privatization plan, such as the well thought-out package of fixes assembled a few years earlier by economists Peter Orszag and Peter Diamond, they stopped the process in its tracks. And that was a smart call, because in earlier negotiations on the “No Child Left Behind” education initiative, Medicare coverage for prescription drugs, and an energy bill, progressives had negotiated in good faith and moved the legislation forward, only to be cut out of the final deal.

The lesson to take from that episode is not “never touch Social Security.” It should have been, that on any issue, you should not negotiate with people who operate in bad faith, when you don’t have enough power. Social Security has been changed 30 times since it was created, often by Democrats, including Franklin Roosevelt himself. With a Democratic president and Senate that are committed to the basic concept of Social Security, changes such as a switch to Chained-CPI (a plausible method of calculating cost-of-living increases floated in 2013 that would have a small effect for most recipients, but a larger one for the very old) should be considered on their own terms, and in the context of other changes, not rejected out of hand because every detail of Social Security is sacred.
Each entitlement program is its own story. Social Security can be improved in dozens of ways, some of which would improve the long-term projected trust-fund balance and others of which might not. (Everything regarding entitlements in the budget is a matter of projections, which are a lot shakier than they seem, since they’re subject to assumptions about economic growth, population growth, and inflation. Still, Social Security projections are a lot sounder than projections for Medicare and Medicaid.) Instead of focusing on Social Security in isolation (or, worse, in the context of “entitlements”), we should look at the crisis of retirement savings for most Americans. There are a number of good small solutions, such as automatic enrollment in 401(k) plans, universal 401(k) plans, or a new system of private accounts, perhaps with a match for lower-income workers, grafted on to Social Security. But the more you look at the reality of work and retirement, in which ever fewer workers will have secure pensions, the clearer it becomes that the most efficient and even the most modern way to secure retirement is simply by expanding Social Security. This would require another level of financing as well, and possibly some benefit cuts in some areas, such as for higher earners, making the program slightly more redistributive. Resistance to any cuts in Social Security should not inhibit these initiatives.

Medicare and Medicaid, on the other hand, we should be desperate to cut. We should not aim to cut eligibility or coverage, but total costs. If, as current projections suggest, Medicare spending were actually to reach 5.6% of GDP by 2035, that would be an extraordinary level of spending in a sector that is generally not adding much productive capacity to the economy, and it would be propping up a level of total spending on health care in the U.S. that is 2.5 times the average of developed countries, with little to show for it. It is not a question of Medicare “going bankrupt.” Rather, Medicare and Medicaid, now joined by the Affordable Care Act, can provide invaluable leverage against overall health inflation, and we shouldn’t be afraid to use them. Fortunately, even without a budget bargain, the Obama administration has succeeded in putting measures in place that are likely to reduce Medicare, Medicaid, and overall health spending, against massive Republican resistance. As these dozens of experiments begin to show results, we should be willing to move quickly to expand those that work to reduce public health-care costs, even if the results won’t be fully captured in the projections of the Congressional Budget Office for some time.

Other participants in this forum are likely to argue that my initial premise—that holding entitlements untouchable has come at the expense of other spending and investment—is a false one, that there’s not a fixed federal budget that’s allocated between these two categories. That’s true, and some earlier efforts to mobilize children’s advocates and others against the entitlement programs on the grounds that they were “squeezing out” investment in kids were indeed efforts to split the progressive base. In theory, we can have plenty of both. But after three years of budgetary trench warfare, in which Republicans don’t budge from blind opposition to tax cuts, and Democrats hold entitlements off the table, the results are quite clear—one category remains vulnerable, and it’s no accident that non-defense discretionary spending is now on track to reach just 2.9% of GDP in a few years. That’s the lowest level for that budget category in more than half a century and barely half of the peak, in the early 1980s. Anything progressives can do to break this cycle of cuts to domestic spending and investment, which really does represent theft of economic potential from the future, we should embrace. And that starts with treating the big entitlements as what they are: a budget category, not a sacrament.
Having rolled the rock of entitlement reform up Mt. Sisyphus more than a few times over the last decade or so, I know it’s important to begin with the obligatories. I prefer to define the challenge as “modernizing social insurance” but in truth such semantic fine-tuning doesn’t make the politics of reform easier. Any suggestion that Medicare and Social Security need fixing touches the rawest of liberal nerves. It’s seen as sacrilege—literally, as Vice President Biden might say—by votaries of the programmatic status quo. This quasi-religious fervor has never made much sense to me, given the utterly pragmatic and experimental spirit in which FDR conceived Social Security. Nonetheless, let me say for the record that I’m reasonably fond of Social Security, Medicare and Medicaid and, far from compassing their destruction, would like to see them reformed for the benefit of my children and theirs.

So what’s the problem? Leaving aside some lesser flaws and anachronisms—including the fact that the basic Social Security benefit isn’t generous enough—the big entitlement programs present us with two large dilemmas. As currently structured, they squeeze out public investment and they create generational inequity. This post focuses on the former, economic problem, because it tends to get less attention than the distributional problem. Since the government’s resources are always going to be finite, it’s important that it strike a sensible balance between spending that supports present consumption and public investment that makes Americans more productive and competitive down the road. Today the balance is badly out of whack.

Regardless of where they stand on entitlement reform, most progressives agree that jobs and economic growth should take precedence over austerity. What I think many are missing is the link between constraining the growth of social insurance costs and a stronger economy. America is stuck in a slow growth trap. Since 2000, the economy has averaged less than 1.8 percent GDP growth a year, its worst performance since before World War II era. The slowdown in job and GDP growth, as well as middle class wage stagnation, began before the recession-cum-financial crisis of 2007-2008.

The basic problem, in other words, is structural. Due mainly to lagging business investment and innovation, eroding competitiveness, and skill shortages, our economy has lost its productive mojo. Americans have grown accustomed to consuming more than they produce, and borrowing to make up the difference. Federal spending priorities have reinforced this consumption bias. Since the 1960s, Washington has been channeling an ever-rising proportion of the revenues it raises into consumption, especially of health and retirement benefits, while the portion of the budget devoted to economic and social investment has shrunk.

Feeding this dynamic is the inexorable growth of automatic, formula-driven spending on older Americans. Such “mandatory” spending now accounts for 60 percent of the nation’s budget. Meanwhile, discretionary spending (excluding defense), has fallen to just 17 percent.
(In 1962, the ratio was roughly reversed: Discretionary spending (including defense) 67 percent of federal spending, mandatory spending 26 percent.) With most of federal spending on autopilot, the domain of democratic deliberation, where our elected representatives debate the nation’s needs, decide which priorities are worth funding and figure out how to pay for them, keeps shrinking. Lawmakers oversee a dwindling portion of the nation’s income and outgo, most of which already has been pre-committed to the big entitlement programs by politicians who are long dead.

I can think of many things to call this “crowding out” phenomenon, but progressive is not one of them. After all, domestic spending supports priorities liberals once fought and bled for. These include common goods like transport, water, and other vital infrastructure that supports economic growth; our national commitment to science and technology, perhaps our prime source of comparative advantage in global competition; and, the public education and training institutions that make “equal opportunity” more than a hollow slogan. Also being starved are progressive programs to help people lift themselves out of poverty, curb hunger, and expand early learning opportunities for families that can’t afford costly day care, not to mention environmental protection, public health and law enforcement.

Medicare and Social Security, which alone account for more than 37 percent of federal spending, are on track to absorb (along with interest on the debt) almost every dollar of revenue Washington collects over the next several decades. Meanwhile, the Urban Institute estimates that federal spending on children will decline about 20 percent over the next decade. This growing disparity seems perverse at a time when poverty rates are higher for children than seniors (18 versus 14.8 percent in 2012, as measured by the Supplemental Poverty Measure). From the standpoint of investing in children and families, uncontrolled mandatory spending on seniors is like a fiscal version of the Doomsday Machine from Dr. Strangelove.

The fiscal skirmishing in Washington has aggravated this systematic whittling down of public investment. Since 2011, the Obama administration and Congressional Republicans have agreed to nearly $4 trillion in debt reduction over the next decade. Of the $2.7 trillion in savings thus far (excluding the effects of the odious “sequester” in future years), $1.55 trillion has come from spending cuts, $700 billion in new revenues from the fiscal cliff deal, and about $450 billion in interest savings. In other words, for every dollar in new revenue, lawmakers have cut spending by $2, and almost all of that has come out of the hide of domestic spending.

This is the inevitable consequence of twin ideological obduracies—the GOP’s anti-tax fanaticism and Democrats’ denial of the need to align social insurance with the inescapable reality of an aging society. And it suits conservatives just fine. Before the Murray-Ryan budget deal softened the sequester’s bite (for two years anyway) The Wall Street Journal’s Stephen Moore chortled over the sequester’s “success”:

> The sequester is squeezing the very programs liberals care most about—including the National Endowment for the Arts, green-energy subsidies, the Environmental Protection Agency and National Public Radio. Outside Washington, the sequester is forcing a fiscal retrenchment for such liberal special-interest groups as Planned Parenthood and the National Council of La Raza, which have growth dependent on government largess.
One reason enough Republicans voted to partially suspend the sequester is that it will also eviscerate defense spending. There was a time when the GOP identified itself as the part of national strength and “resolve” expressed through more military spending. Today Tea Party types and libertarians apparently feel more threatened by the federal government than by America’s enemies.

Of course, progressives could avoid a zero-sum conflict between entitlements and domestic programs by borrowing more money or hiking taxes. Unfortunately, either expedient collides with economic and political reality. More borrowing would propel the national debt to 100 percent of GDP and beyond, driving up interest and shrinking the “fiscal reserve” we’ll need to combat future downturns. Given the halting recovery, big tax hikes now are economically dumb as well as politically infeasible. Many liberals have convinced themselves that the entitlements can be made solvent as the boomers surge into retirement simply by raising the payroll tax. This is probably the least progressive “solution” imaginable. By making labor more expensive, it would discourage employers from hiring workers, especially young and low-skilled ones. And it would transfer more wealth from young workers to retirees.

What progressives ought to do instead is strike a more equitable balance between mandatory and domestic spending (if not eliminate the distinction altogether by bringing entitlements on budget). Yet when President Obama dared to endorse “chained CPI,” a more accurate inflation measure that would reduce cost-of-living adjustments for Medicare and Social Security recipients, he was instantly flamed by lefty activists. Declared Stephanie Taylor of the Progressive Change Campaign Committee:

You can’t call yourself a Democrat and support Social Security benefit cuts. The president is proposing to steal thousands of dollars from grandparents and veterans by cutting cost-of-living adjustments, and any congressional Democrat who votes for such a plan should be ready for a primary challenge.

Will Democrats allow themselves to be intimidated by such reactionary liberalism, as Republicans now cower before Grover Norquist and the Club for Growth? If progressivism means anything, surely it’s a commitment to adapting old policies and programs to new economic and social realities. As custodians of America’s venerable social insurance programs, progressives are responsible for ensuring they work for future generations as well as for past ones. Today that means making the Big Three solvent amid an unprecedented demographic bulge; rebalancing the intergenerational compact to avoid putting unjust financial burdens on the young; and shifting public resources from consumption—especially by well-off retirees—to investments aimed at accelerating growth and social mobility.
A Rejoinder on Generational Equity, Healthcare, and Keynesian Economics

By Dean Baker

My co-authors made many useful points in their pieces. They also made some claims with which I disagree. Rather than address their comments individually, I will make three general points in response to issues that came up in several of the pieces.

First, generational equity has almost nothing to do with tax and transfer policy; we give our children a whole economy and society. If we hand our kids a government with no debt burden and no taxes to pay for their parents' Social Security, but a wrecked infrastructure, a devastated environment, and an antiquated capital stock we've have not done well on the generational equity scorecard.

We pointlessly hand the right an enormous political advantage when we imply that the share of tax revenue going to programs for the young versus programs for the old has anything to do with generational equity. We’ve already lost almost $8 trillion in output from the Great Recession (more than $25,000 per person). This lost output, coupled with the destruction to families’ lives resulting from long-term unemployment and underemployment will do hugely more to hurt the life prospects of our children and grandchildren than Social Security and Medicare taxes ever could. If we want to point fingers at generational villains we should be looking at Greenspan, Rubin, and the Wall Street gang.

If we sustain decent economic growth there is no plausible story in which workers twenty or thirty years from now won’t be far wealthier on average than they are today. Assuming normal economic growth, real wages will be on average more than 40 percent higher in 2040 than they are today. If workers in 2040 have to pay another 2-3 percentage points of their income in taxes, that doesn’t amount to generational inequality in any meaningful sense of the term. If large numbers of workers actually are not living as well as their parents or grandparents it will be due to intra-generational inequality, not inter-generational inequality.

As a sidebar, the debt is mostly passed on as assets to our children. We’ll be dead, so they will hold the bonds. There is an issue of debt held by foreigners, but people troubled by that one are looking at the wrong deficit. The problem with foreign debt is the trade deficit, re-read an intro economics textbook if this is not clear.

The second point is that the U.S. health care system is broken. We pay more than twice as much per person as people in other countries without anything to show for it in terms of outcomes. Yes, it is hard politically to attack insurers, doctors, drug companies and other health care providers, but it is also hard politically to cut Social Security and Medicare. It is bizarre that anyone who considers themselves progressive would be anxious to take on the politically difficult task of cutting Social Security and Medicare, but back away from going after the people responsible for outrageous health care costs.
I have repeatedly advocated trying to push for more open trade in health care as an end-run around the powerful interests that keep up costs. This is a way of focusing on the fact that the debate has nothing to do with free market ideology, it is a debate over protecting the high incomes of health care providers pure and simple. While I find allies on this one on the more conservative side of the political spectrum, progressives seem to find the concept confusing. I know it’s hard for intellectuals to think about new ideas, but sometimes it is necessary to try. The effort to contain health care costs is one such case. (It should be noted that costs have grown much more slowly over the last six years.)

Third, Keynesian economics is true regardless of its popularity, just like gravity and global warming. If people do not accept Keynesian economics as it has been presented, then we have to find other ways to present it. (It doesn’t help that our “progressive” Democratic president is on the other side on this one.) The reality is that we will not have full employment without large budget deficits or bubbles unless we get the trade deficit down. There is no way around this fact.

As I explained in my original piece, any serious effort to get the trade deficit down means lowering the value of the dollar. We could probably reduce the value of the dollar against other currencies if it were a political priority of the Obama administration. Unfortunately that does not appear to be the case. This leaves us budget deficits or bubbles. Better framing or good rhetoric won’t get around this logic.

The one other option is re-dividing the work. Work sharing and more leisure have much to recommend them. If we can’t get around the stalemate blocking the expansion of the pie, a fairer division among the pie-eaters seems the best alternative. After all, it is not their fault they are unemployed. It is the fault of the policymakers in Washington.
KUTTNER: A REJOINDER TO BILL GALSTON

BY ROBERT KUTTNER

I take exception to most of the assumptions and conclusions in William Galston’s piece. For starters, the debate about entitlement programs is needs to be located within a larger debate about the mixed economy.

Galston begins by asserting:

I take it we agree that suitably structured and regulated markets generate wealth more effectively than other economic systems but do not reliably produce either a reasonable distribution of prosperity’s fruits or an adequate level of security against life’s physical and financial vicissitudes. It is for that reason, we agree, that since the 1930s the United States has developed a web of programs to assist the poor and vulnerable, to make work pay and provide protection against unemployment, and to ensure older Americans a decent retirement.

In other words, let the market generate wealth and then redistribute as necessary after the fact. But depending on whether markets are in fact “suitably structured and regulated,” the welfare-state part of the system can complement the market part or be destroyed by it.

For two decades, the New Democrat wing of the progressive coalition has been complicit in policies that deregulated capitalism and liberated speculative finance. All of that contributed mightily to the deficits that now become the pretext for weakening the welfare state. All piled more fiscal burdens onto the welfare state than it can reasonably sustain. So shoring up transfer programs begins with rebuilding a more equitable form of regulated capitalism.

The social settlement forged in the Great Depression and refined after World War II regulated labor and capital markets so that the primary (wage and salary) income distribution would be relatively equal. The state redistributed after the fact, with socialized programs of retirement, health care, and special help for the poor.

But if the structure of wages and salaries becomes ever more unequal, the welfare state cannot possible do enough redistribution after the fact to compensate, without destroying itself fiscally and politically. Increased productivity and growth per se, though necessary, are not sufficient—because productivity in fact rose 80 percent between 1973 and 2011, while median wages were almost flat because so much went to the very top.

Galston subscribes to the premise that we need growth and good jobs, but his version emphasizes the concern that:

[I]t is important to structure and finance entitlement programs so as to minimize potential negative impacts on growth and employment. For example, employers compare the marginal cost of adding workers to the gains at the margin that those
workers could produce. In making that comparison, they look at total compensation, not just money wages. There are limits, then, as to how high payroll taxes (and health insurance premiums) can rise before they discourage employers from hiring.

There are two problems with this. First, it leaves out all of the other sources of what influences creation of good jobs, such as expansive macro-economic policy, full employment, labor-market regulation, collective bargaining, trade policy, adequate regulation of finance, and public investment. The minor disincentives created by payroll taxes pale compared with these other factors. At periods of full employment, payroll taxes were no obstacle to employers adding good jobs.

Second, his presumption here is that health costs and costs of pensions necessarily must be financed mainly by payroll taxes. In fact they could be financed in part by general revenues, as President Roosevelt originally proposed in 1935 for Social Security once the system was mature.

Galston goes on to argue that the economy needs other social outlays but entitlements are crowding out public investment. The naïve premise that reducing social insurance would free up money for other public spending plays into the hands of the austerity coalition. The same political forces that want to gut Social Security and Medicare also oppose increased public investment generally. The savings would simply be used for deficit reduction.

The fact is that the U.S. has more impoverished programs of social insurance than any other advanced industrial nation. Social Security is about one percentage point of GDP out of long-term actuarial balance. That could easily be remedied with either general revenue or by raising the $117,000 cap income subject to payroll taxes (which would not affect job creation since most workers are well under the cap).

If we are serious about fiscal reform, bringing Social Security into long term balance without benefit cuts is not difficult. Indeed, as Elizabeth Warren has pointed out, with the collapse of private pension systems, we should be increasing Social Security, not cutting it.

Our health system is indeed inefficient, but that is because it is overly commercialized, fragmented, and subject to middleman profiteering and not because Americans are getting coddled. Galston also contends that if we counted the roughly half of health care outlays spent in the U.S. through the private sector, much of the public spending gap between the U.S. and Europe would disappear. We spend a total of about 17 percent of GDP on health care, and leave tens of millions of people uninsured. Europe spends an average of 10 percent, covers everyone, and has better health outcomes.

Surely, that gap makes the case for a more comprehensive public system of health insurance and not for cutting social outlays. To compare Europe’s relatively efficient socialized systems with our wasteful and more heavily commercialized one and then argue that America’s private health outlays should be counted as de facto public ones is to confuse apples and oranges. The U.S. also spends far more of its GDP on the military, which is not part of the welfare state.
Galston then embraces the most misleading argument of all—generational equity. This mantra, also promoted relentlessly by the austerity lobby, has the cause and effect backwards. If we want the next generation to have decent economic prospects, we need to restore both economic growth and a more equitable distribution of wage and salary income that reflects rising productivity growth. There is no evidence whatever that cutting social insurance programs will do either. In fact, the reduction in public outlay undertaken to date, according to the C.B.O., has reduced, not increased the rate of recovery from recession and has reduced GDP growth.

Galston, in making the case for Social Security cuts, writes:

There is broad agreement across party lines that any changes in Social Security and Medicare should honor the legitimate expectations of individuals at or near retirement and that individuals now ages 55 and over should be held harmless.

Note the sleight of hand. This assertion implies that there is also agreement across party lines that it’s okay to cut benefits for people under 55. But there is nothing of the sort. Most Democrats are committed to preserving the system intact, for younger as well as older workers and retirees.

I agree with some of Galston’s proposals to increase Social Security’s revenues. But he is wrong to endorse backdoor cuts in Social Security benefits disguised as technical adjustments or improvements in the system’s progressivity. By all means, let’s increase Social Security benefits at the bottom—but not at the expense of the middle class. Social Security benefits are far from lavish but make up a large fraction of total retiree income, well up the income ladder.

Rather than fragmenting these core programs, if we want to shore up their finances and make them more progressive in their incidence, I commend the progressive income tax. The *Los Angeles Times*’s Michael Hiltzig has calculated that only about $1 billion a year of Social Security benefits go to millionaires. It’s not hard to tax that money back via progressive income taxation.

Fixing Medicare is indeed harder. But the cure for Medicare’s imbalances is much broader reform of the health system. Except for the very well off, Medicare is a life-saver. It is a huge programmatic and political mistake to further fragment Medicare by income-testing it for the affluent and creating different ground rules for them, as Galston suggests. That remedy undermines Medicare’s necessary political coalition.

Galston is also mistaken to characterize Medicare as the poor subsidizing the rich. It is nothing of the sort. Like all health insurance, it is the (temporarily) well subsidizing the sick. Because Medicare taxes have no income cap, they are progressively financed, and the rich pay in substantially more than the poor.

Voucher proposals are particular mischief, since they would leave people who couldn’t afford to supplement the voucher with private means with vastly inferior health insurance that failed to cover many medical needs. The cost crisis of Medicare is leading to a fork in the road, where we either move to true universal public health insurance or fiscal pressures will force us into vouchers.
Let’s return to the politics of all this. Social Security is justifiably the most popular of all social insurance programs. It is widely seen as an earned benefit, even though it is also a hugely important anti-poverty program. Social Security is practical reinforcement of the premise of the core philosophy of the modern Democratic Party—that we need government to counterbalance the inefficiencies and injustices of a pure laissez-faire economy. It is practical evidence that government can work to serve regular people.

For eighty years, a core defining difference between Republicans and Democrats has been that Democrats can be counted on to defend your Social Security and Republicans can’t. Galston’s proposed cut in benefits for people under 55 would blur this key distinction. Both parties would become agents of reducing Social Security, at a time when seniors are already skeptical of President Obama’s defense of Medicare.

It’s distressing to see centrist policy intellectuals, ostensibly in defense of social insurance, echoing many of the same spurious arguments of foes of regulated capitalism such as the Concord Coalition, Fix the Debt, the Peterson Foundation, the Bipartisan Policy Center, and the conservatives on the Bowles-Simpson Commission. In truth, cutting social insurance will have no positive impact on growth, good jobs, public outlay, or the life prospects of future generations. I take Galston at this word that his goal is to preserve social insurance for the next generation, but his proposals would undermine its political logic and vital essence.
GALSTON: A REJOINER TO BOB KUTTNER

BY WILLIAM GALSTON

It would be neither edifying nor productive to respond in kind to Bob Kuttner’s critique. Instead, I’d like to identify some of the key analytical points that divide us, in the hope that focusing on them will elevate the debate.

But let me begin with where we agree. Kuttner points that that between 1973 and 2011, productivity soared while wages stagnated. It may surprise him and others to learn that this development is the focus of my most recent weekly column in the Wall Street Journal. I cite and discuss an OECD study showing that this trend has been pervasive throughout the developed world in recent decades. I advocate a new American social compact to close the gap between compensation and productivity, which I call the central economic challenge of our time.

Kuttner points out, again rightly, that beginning during the Great Depression and continuing after World War II, we forged a social settlement that restrained inequalities of wage and salary income. But here’s the problem: that settlement could be sustained only in the special circumstances that prevailed for the quarter century following the war. The U.S. economy was completely dominant, and almost as completely closed. U.S. firms depended on purchasing power in the domestic market, and they faced almost no international competition. In these circumstances, firms could raise wages and pass on the increased costs to consumers. And because our market was closed, increased household incomes raised demand for US products. Within a wide range, this system of negotiated wages and take-it-or-leave-it prices was not zero-sum but rather mutually beneficial.

Those days are gone, and they are not coming back. The arrangements that served us well in the post-war period are no longer workable. The challenge (which we have not yet begun to meet, intellectually or politically) is replacing them with new arrangements consistent with new realities, which include global markets and a post-industrial technological revolution that shows no signs of abating. ATMs have largely replaced bank tellers; automated counters are in the process of replacing supermarket checkout clerks; computerization makes it possible to produce steel with only a fraction of the labor input required a generation ago. We have a range of possible responses to these new facts. What we cannot do is ignore them or pretend that they are transient.

Another crucial issue is the relationship between spending on social insurance programs and on public investment. I pointed out the obvious: right now, the correlation of political forces has spared social insurance at the expense of basic research, education, job training, and infrastructure. When you get right down to it, Republicans won’t push to reduce Social Security and Medicare, and Democrats won’t fight very hard to preserve public investments. If President Obama’s 2013 budget had been adopted with no changes, we would be on track to the lowest level of domestic discretionary spending—out of which public investments
are financed—since at least 1947. The recent budget agreement, which loosens restraints on discretionary spending for the next two years, does nothing to change the longer-term trajectory. I’m not alone in thinking that this path endangers our future.

Kuttner thinks I’m naïve for suggesting that changes in social insurance programs consistent with the principle of progressivity would free up needed resources for public investments. I’m not in favor of leaving this to chance; it would have to be negotiated. And if it couldn’t be, I’d walk away from the table. I’ll leave it to readers to decide whether Kuttner’s alternative—do more of everything and finance it with huge tax increases—is more or less realistic than mine.

In the end, Kuttner and I agree (I think) on a core proposition I articulated: In the absence of much more vigorous economic growth the fruits of which are widely shared, the United States will find it increasingly difficult to sustain the arrangements that assist the poor and vulnerable and secure a decent retirement for elderly Americans. Nearly five years after the official end of the Great Recession, unemployment remains elevated, long-term unemployment is shockingly high, workers’ compensation is stagnant, and household incomes languish below the level of the late 1990s. If we can’t figure out how to do better than this, the debate that Kuttner and I are having will remain moot. That’s why serious discussion of social insurance and public investment must start by addressing the challenge of growth. Within this framework of shared ends, let’s argue about means. I’m confident that a discussion along these lines is more likely to lead to productive results.
IN SUMMATION—THE FUTURE OF THE SOCIAL SAFETY NET

BY ED KILGORE AND KIT RACHLIS

The *American Prospect/Democratic Strategist* forum, “The Future of the Social Safety Net: Progressive Perspectives on the the New Deal/Great Society Entitlement Programs,” has concluded with seven initial essays and three rejoinders. We are proud of this forum, the first we know of to convince left-of-center thinkers to debate one another on this subject without “the enemy is listening” distractions caused by conservative proposals to ravage the safety net. The debate covered a lot of ground and exposed areas of agreement (the need for an economic growth and healthcare cost containment strategy that will eliminate the entitlements vs. discretionary investments dilemma) and disagreement (whether means-tested reductions in entitlement spending are essential or inimical to a broader progressive economic and social agenda).

Our overriding objectives in holding this forum were to foster empirically-based civil conversations among progressives on these subjects and to separate substantive from political strategy arguments. We achieved mixed results; recriminations over past battles recurred on both sides of the centrist/liberal barrier, and strategic and substantive arguments continued to co-exist without sufficient differentiation. But it represented a start and perhaps a model for the essential intra-progressive debates we need to have on a broad range of issues once the loyalties associated with the Obama administration have become less central.

We’re not pleased that the forum didn’t spend much time on means-tested entitlements like Medicaid, CHIP, SNAP, TANF and the Obamacare subsidies, focusing as it did on “middle-class” entitlements and discretionary investments. Still, the forum moved toward a more global view of liberal priorities separate from particular budget fights.

Above all, we hope the forum stimulates similar discussions among a more diverse community of progressives with a congruent set of ground rules encouraging clarity and civility. As the 2016 presidential election approaches and progressives again rise up from their defensive haunches and define what they stand for, honest and even fearless conversations about priorities will become critical. Let’s keep talking.