Economic Growth Policy Paper

# Freedom from Fear

## Using the Social Security Act to Rebuild America's Social Safety Net

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The Social Security system was intended not merely to provide public pensions for the elderly but also to establish a framework for a comprehensive system of economic security. Steven Attewell writes: "We need to go back to the original drawing board – the Social Security Act of 1935 – to finish the job it began and create a truly universal and comprehensive social welfare state."

Every economic crisis brings with it a social crisis. With official unemployment at 10%, the ranks of America's poor have swollen by at least an additional 2.3 million since 2007.[1] Not since the Great Depression have we been so desperate for a system of social insurance to protect ourselves from the sudden shocks of economic collapse.

The recession that began in 2007 did not create this crisis. As scholars and journalists like Jacob Hacker, Larry Bartels, Katherine Newman, Steven Greenhouse, Barbara Ehrenreich, and others have shown, economic insecurity and instability were on the rise long before this recession hit. Even during the years of economic growth that preceded it, the U6 unemployment rate never fell below 7%.[2] Poverty rates likewise remained stubbornly high – above 12% – and actually grew between 2003-5, despite steady economic growth.[3] For the first time, median household income fell during a sustained period of economic recovery. In terms of its social effects, the current "Great Recession" is a predator that seeks out the weak and the sick. In healthy societies, social welfare systems cushion vulnerable populations against economic dislocation and "automatic stabilizers" soften the severity of recessions. This hasn't happened in the United States. Unemployment Insurance (UI) is supposed to help workers make ends meet until the economy recovers; Social Security is supposed to allow senior citizens to retire with dignity; and surely a civilized nation would see to it that families with children are protected. Instead, no less than 15 states have had to borrow billions from the U.S Department of Labor because their UI funds have run dry; one in four Americans over 62 are putting off retirement for financial reasons; and child poverty – at 19% – is a national embarrassment.[4]

[1] Carol Morello and Dan Keating, "Millions More Thrust Into Poverty," *The Washington Post*. September 11, 2009.

[2] The U6 measure of unemployment is the broadest measure of unemployment, including discouraged workers who have ceased looking for work, the underemployed (people who would like to work full time but can only find part time work), and marginally attached workers. See Bureau of Labor Statistics, http://www.bls.gov/webapps/legacy/cpsatab12.htm.

[3] Historical Poverty Tables. U.S. Census Bureau. Available: http://www.census.gov/hhes/www/poverty/histpov/hstpov2.html.

[4] Haglund, Rick. "Economic Alliance for Michigan calls on Congress for extended jobless benefits for workers, tax relief for employees." *The Grand Rapids Press.* September 14, 2009; Rampell, Catherine and Matthew Saltmarsh. "A Reluctance to Retire Means Fewer Openings." *The New York Times*. September 3, 2009.

In short, our social safety net is broken. We need to go back to the original drawing board – the Social Security Act of 1935 – to finish the job it began and create a truly universal and comprehensive social welfare state. To ensure that the Social Security system satisfies those two requirements, we must explore reforms in several areas:

- **Unemployment Insurance.** Given that only a minority of American workers has access to unemployment insurance, reforms are needed to ensure both that workers are protected from destitution, and that the nation's "automatic stabilizer" is functioning effectively.

- **Old Age Pensions.** As the proportion of workers covered by traditional "defined benefit" pensions (or any pension) declines, the Social Security system will need to adapt its protections.

- **Universal Child Care.** Current social policy provides very few protections against child poverty, or mechanisms to help families in need deal with the high cost of providing for their children.

- **Finance.** In order to transform the social welfare system, the methods we use to finance Social Security might need to be modified as well.

## The Idea of Social Security

To understand why the Social Security Act should be the main vehicle for social policy reform, we must first dispatch a fundamental political myth. For the last thirty years, this national safety net has been characterized as an intergenerational compact between retired citizens and the active generation of American workers. This "just so" story has been repeated again and again in American politics whenever Social Security has been threatened. From Reagan's failed attempt to privatize Social Security, to the 1983 Social Security "compromise" that shifted the program from a pay-go to a prefunded system, to Clinton's "save Social Security first" surplus politics and George W. Bush's failed attempt to create a privatized "carve-out" within Social Security, defenders of the system have argued that it should not be tampered with because it represents a compact each generation shoulders to care for its parents, knowing they will enjoy the same just reward in turn.

This familiar image is based on a misreading of the historical record. When President Franklin D. Roosevelt established a "Committee on Economic Security" in 1934 to deliberate over the creation of a social insurance system that could ease the country's economic crisis and protect it from a future Great Depression, the Committee's discussions ranged well beyond the limited question of providing for old-age pensions. Instead, the system that emerged as Social Security was meant to be a social contract between all members of society to protect one another from all of the "vicissitudes of modern life," of which old age was but one element.

The draft legislation that FDR's brain trust envisioned contained sections that were designed to protect specific populations from the risks each typically faced. Taken together, the provisions were designed to stretch a safety net underneath the whole of American society. Old Age Insurance would provide a retirement pension – but only for the 46% of the American workforce that was securely attached to the industrial economy. For the majority of workers, including all agricultural and domestic workers (which meant the vast majority of African Americans and women), those who fell into poverty in old age would be provided welfare benefits through Old Age Assistance. Women and children who had lost their (male) provider would receive welfare benefits through Aid to Dependent Children. Adult workers would be protected against a sudden loss of wage income by Unemployment Insurance, but as was the case with Old Age Insurance, only 46% of the workforce would be covered.

What about the other half of the workforce? Their security was to be insured by the New Deal's jobs programs. The Civilian Conservation Corps and National Youth Administration would create jobs for the young, and the

Works Progress Administration and Public Works Administration would provide employment for adult workers. Critically, the New Deal's "employment assurance" programs (as the members of the Committee on Economic Security described them) would act as a "safety net under the safety net" in two ways. First, by opening their doors to "those not normally included," they would insure that the 54% of the workforce not covered by social insurance would not fall through the cracks. Second, because employees hired through New Deal jobs programs received a regular paycheck and paid into the social insurance system, otherwise ineligible workers could build up contributions to Old Age Insurance and Unemployment Insurance. By maximizing the number of workers paying into the Social Security system while minimizing the number in need of benefits, the jobs programs would keep revenue inflow at its peak, while decreasing the demand on the system that might drain its reserves in a time of crisis.

This comprehensive system was broadly successful in combating the Great Depression. Under the auspices of the New Deal, unemployment fell from 23% in 1933 to 9.2% in 1937 (with the CCC, NYA, WPA, and WPA making up half the growth in employment); in the same period, GDP grew by a phenomenal average of 9.6% per year. Declining unemployment kept the demand on Unemployment Insurance down, while growth-fuelled tax revenue made it easier to support Old Age Assistance and Aid to Dependent Children programs.

Over the last seventy-five years, the interconnected nature of FDR's system has been lost from view. While Old Age Insurance (having incorporated Old Age Assistance through the establishment of Supplemental Security Income in 1974) has become politically untouchable, Unemployment Insurance has been underfinanced and restricted by state governments; Aid to Dependent Children (better known as welfare) was abolished as a federal entitlement in the 1990s; and the job programs that were supposed to act as a backstop for the entire system failed to survive the 1940s. While the Full Employment Bill of 1946 promised to establish a right to a job, with the Federal government as employer of last resort, the bill was stymied in committee. We have been left with a social protection scheme that is shot through with holes, and millions of Americans are falling through them.

What is needed, therefore, is not just a quick fix for Social Security, or an extension of Unemployment Insurance, but a retrofit of the entire system, to once again create comprehensive and universal protection from economic risks for all Americans.

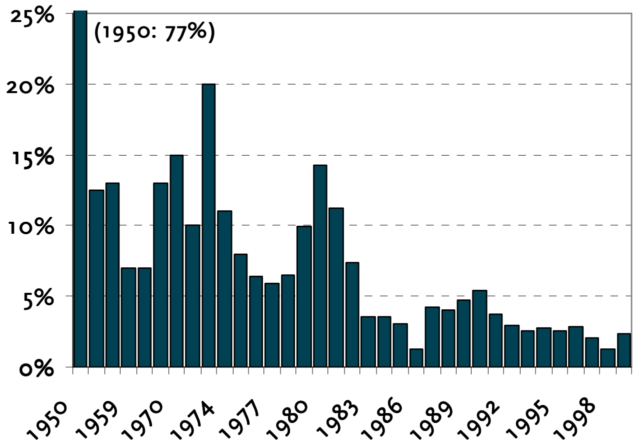
## Building Social Security, 1935-1972

In considering how to establish a more comprehensive social welfare system, we must remember that the amendment process is the means by which Social Security became the political keystone that it is today. In 1935, eligibility for social security was so limited that only a minority of the population could hope to benefit from social insurance. Entire categories of Americans were excluded, most notably the majority of blacks and women. In addition, huge occupational categories such as sailors and transportation workers were excluded, so that even the majority of white men were ineligible. Benefits were extremely low by today's standards (the initial Social Security benefit, for example, was only about $300 a month in 2008 dollars), and were kept that way by an alliance of conservative Republicans and Southern Dixiecrats who first blocked then delayed the expansion of payroll tax rates after 1937, which kept the system underfinanced.[5]

In the face of these obstacles, activists within the Social Security movement like Edwin Witte (the Executive Director of the Committee on Economic Security) and Arthur Altmeyer (the first chairman of the Social Security Board), as well as Congressional Democrats from the party's liberal and moderate wings, launched a united effort to push the program to live up to its ideal as a universal system that provided an "American standard of living."

[5] Dewitt, Larry. "Details of Ida May Fuller's Payroll Tax Contributions." Social Security Administration Historian's Office. July 1996.

## Annual Increase in Social Security Benefits, 1950-1999




Note: Effective in 1975, benefits were automatically increased according to an annual inflation-indexed cost-of-living-adjustment.
*Source: Social Security Administration*

Over the next 40 years, the Social Security system was amended repeatedly to expand eligibility, raise the level and variety of benefits, and establish innovative programs to cover new populations. [6] In 1939, Congress established Survivor's benefits and expanded Aid to Dependent Children, thus bringing most women under the umbrella of Social Security. In the same amendment, regular Social Security benefits were accelerated and a Trust Fund was established which allowed the system to support a higher benefit level. In 1956, agricultural and domestic workers were added to the rolls of the eligible, bringing the majority of African-Americans within both Old Age and Unemployment Insurance. In the 1960s, amendments created Disability Insurance, raised benefit levels once again, and established Medicare and Medicaid to add health coverage to the package. In 1972, Social Security benefits were indexed to inflation with a permanent COLA (Cost-of-Living Adjustment), and Supplemental Security Income (which provides an additional pension for the elderly poor) was established two years after.

## Expansion of Social Security Benefit Eligibility

| Year | Benefit Category[7] |
|---|---|
| 1935 | Retired worker aged 65 and over |
| 1939 | Wife aged 65 and over; Child under age 18; Widowed mother any age caring for eligible child; Dependent parent aged 65 and over (survivor) |
| 1950 | Wife under age 65 caring for eligible child; Husband aged 65 and over; Dependent widower aged 65 and over |
| 1956 | Retired woman aged 62-64; Disabled worker aged 50-64; Wife aged 62-64; Dependent child age 18 and over; Widow aged 62-64; Disabled child aged 18 and over; Dependent female parent aged 62-64 (survivor) |
| 1958 | Dependents of disabled worker same as dependents of retired-worker recipient |
| 1960 | Disabled worker under age 65 |
| 1961 | Retired man aged 62-64; Husband aged 62-64; Dependent widower aged 62 and over; Dependent male parent aged 62-64 (survivor) |
| 1965 | Full-time student aged 18-21 (dependent and survivor); Divorced wife age 62 and over; Widow aged 60-61; Divorced widow aged 60 and over |
| 1967 | Disabled widow aged 50-59 |
| 1975 | Widowed father caring for eligible child |
| 1976 | Divorced husband aged 62 and over |
| 1978 | Husband under age 65 caring for eligible child |
| 1981 | Student category eliminated except for high school students under age 19 (dependent and survivor) |

This litany of crucial amendments came down to us as a consequence of a regular political ritual: virtually all of them were passed in the autumn of election years when

[6] The American Political Development school of policy history and political science refers to this process as "path dependency." The Social Security Act has been the classic case study of this process in social policy, whether in Theda Skcopol's *Social Policy in the United States* (studying state capacity), Susanne Mettler's *Dividing Citizens* (looking at racial and gender discrimination), or Jacob Hacker's *America's Divided Welfare State* (looking at public/private provision).

[7] Kollman, Geoffrey. "Social Security: Summary of Major Changes in the Cash Benefits Program." Social Security Administration. May 18, 2000.

voters were paying the most attention to Congress. Along with similarly timed increases in the minimum wage, amending the Social Security Act permitted sweeping public policy changes to be cut down to a size that the political system could swallow. And when taken together, these were not small changes. Social Security coverage eventually grew to encompass virtually the entire population, old age benefits essentially abolished poverty among seniors, and increases in the minimum wage brought the lowest paid workers from less than 100% of the federal poverty line to nearly 250%.

If we want to construct a new system of social protection, history offers this suggestion: restart this process of regular amendments. Amendments could easily be offered annually or bi-annually, each one incorporating gradual improvements to every aspect of the Social Security System, until we have enlarged the boundaries of social policy to include all Americans.

## Rebuilding Our First Line of Defense: Unemployment Insurance

Classically, unemployment insurance systems are supposed to serve as "automatic stabilizers," rushing income to unemployed workers and their families to prevent them from falling into poverty, while at the same time preventing consumer demand from falling through the floor during recessions. The wisdom of this policy is evident today in the divergent pathways of different countries through the current recession. France and Germany exited the downturn early (experiencing economic growth in the second quarter of 2009),[8] and experienced a less severe contraction of the workforce (Germany's unemployment rate decreased from 7.8% to 7.1% in 2008, and only rose to 7.6% in 2009; France's unemployment rate actually fell steadily through 2006-8, and increased only mildly by 1.3% in 2009).[9] In no small part, this was due to the fact that France and Germany's unemployment benefit systems cover virtually all workers and tend to provide a longer and more generous pension; this prevented consumer demand from falling as drastically as it did in the United States, which limited the damage done to the French and German economies due to increased unemployment.

> "Unemployment compensation, as we conceive it, is a front line of defense, especially valuable for those who are ordinarily steadily employed, but very beneficial also in maintaining purchasing power. While it will not directly benefit those now unemployed until they are reabsorbed in industry, it should be instituted at the earliest possible date to increase the security of all who are employed..."
> *– Report to the President, Committee on Economic Security (1935)*

One of the major reasons why American workers have experienced such a devastating recession compared to other countries is that our own "automatic stabilizer" isn't working. Less than half of unemployed workers in America are eligible for and receive Unemployment Insurance benefits, largely due to high contribution requirements; "Base Period" (the length of time one has previously worked) requirements that have kept low wage workers out of the system; and eligibility standards that outright exclude part-time, temporary, and so-called "independent contractor" employees. As a result, while 14.3 million workers are officially unemployed,[10] only 10 million are receiving Unemployment Insurance[11] – which has meant dramatic increases in recession-induced poverty and equally dramatic slumps in consumer spending, further weakening the economy and creating a downward spiral of layoffs.

## Using the Social Security Act

Amendments to Title III of the Social Security Act can be used to explore a number of options for making

[8] Plyas, Pan. "France, Germany Exit Recession." Associated Press. August 13, 2009.
[9] Monthly Unemployment Rate. Eurostat.

[10] 2009 Unemployment Level. "Labor Force Statistics from the Current Population Survey." Bureau of Labor Statistics.
[11] "Unemployment Insurance Weekly Claims Report." Employment and Training Administration, Department of Labor. January 7, 2010.

Unemployment Insurance more effective, both in terms of the federal/state balance, coverage and eligibility, and benefit levels.

One approach, following from the Unemployment Insurance Modernization Act (which was passed as part of the stimulus legislation), would be to gradually nationalize the UI system by increasing the federal percentage of contributions. Currently, the fifty states have primary responsibility for UI, with the federal government only contributing to extensions during economic crises. Because state governments lack the constitutional capacity to spend counter-cyclically in recessions, even in the best of circumstances, state UI programs will run dry precisely at the time when demand is highest. However, since states must fund their UI system with payroll taxes on local employers, reducing payroll taxes for UI is often the first bargaining chip they offer when trying to compete with one another to attract new firms. They keep UI taxes (and thus employment costs) low – resulting in a dangerous depletion of UI reserves. The problem comes home to roost whenever a major recession strikes. A national UI system, on the other hand, would be able to respond more flexibly in recessions, while ensuring that unemployed workers in Mississippi receive the same protection as unemployed workers in Massachusetts.

Another route would be to focus on expanding eligibility for unemployment insurance, bringing part-time, temporary, and "independent contractor" workers back within the system, thus making the UI system a more efficient stabilizer. This particular trend can also be seen in the Unemployment Insurance Modernization Act's provisions that made Federal contributions contingent on state-level expansions of eligibility to part-time workers.

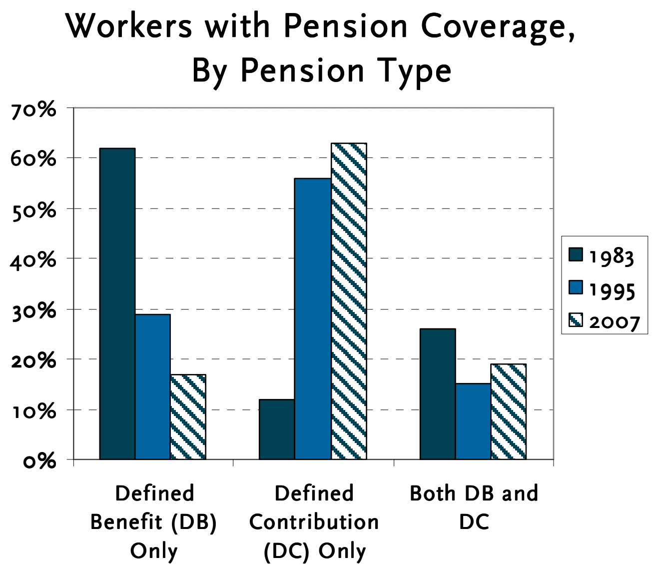
A third option might be to focus on improving and modernizing the basic unemployment benefit, so that the UI system punches at a higher weight. At the moment, UI benefits vary dramatically from state to state, such that Arizona, Louisiana, Mississippi, Tennessee, and Alaska all pay average benefits below the Federal poverty line for a single individual, let alone for a family. Even the highest-paying states like Massachusetts and Hawaii pay an average benefit that falls just below the poverty line for a family of four. Increasing the basic benefit could also have the added advantage of making the UI system an effective anti-poverty tool as well as an anti-recessionary mechanism.

## Dignity and Security: Making Social Security Work

For America's seniors, probably the most protected group of Americans in terms of social policy, the recent increase in their economic insecurity and instability can be traced back to the steady erosion of traditional "defined benefit" pensions.

> "Old age comes to everyone who does not die prematurely and is a misfortune only if there is insufficient income to provide for the remaining years of life. With a rapidly increasing number and percentage of the aged, and the impairment and loss of savings, this country faces, in the next decades, an even greater old-age security problem than that with which it is already confronted."
> *– Report to the President, Committee on Economic Security (1935)*

During the first twenty years of Social Security's operation, the combination of limited revenue, and thus limited benefits, and a series of decisions on how private pensions would be treated by the IRS changed the nature of Social Security from a system that was supposed to support workers on its own to a system that would provide a basic foundation for private employer pensions to build on top of. In the last thirty years, however, companies have been steadily shrinking their private pension contributions, either by eliminating their retirement plans altogether or by shifting from a "defined benefit" to a "defined contribution" pension that looked to returns from investments on stocks and bonds to replace much of the employer's share. In a defined benefit system a retired worker knows exactly how much he or she is going to receive each month; in a defined contribution system, the employer's money goes into investments with attendant risks. However, American workers were sold on the idea of an "ownership society" in which their 401ks and IRAs would only go up, and so there were few protests as companies withdrew funds from "overfunded" pension schemes or shifted from defined benefits to defined contributions.




*Source: Center for Retirement Research at Boston College*

What we have learned in the last decade is that any market-based retirement is inherently unstable, creating vulnerability and uncertainty. Seniors who were lucky enough to retire in the late 1990s, before the collapse of the stock market, may enjoy a comfortable standard of living, but their peers who retired even a year or two later may very easily have lost the bulk of their life savings. And thus, economic insecurity flows back into the system.

In the face of this increasing insecurity, we can turn to the Social Security system, already the major means of support for two-thirds of America's retirees, to make old-age retirement once more stable and dignified. Here, several options present themselves.

One route would be to create a new protected system for voluntary savings. In 1935, the Committee on Economic Security laid out a plan that was never pursued, either in the original bill or in subsequent amendments, to establish a parallel system of individual old-age annuities that people could buy from the Federal government at cost "to offer persons not included within the compulsory system a systematic and safe method of providing for their old age [and] a means of supplementing the old-age income provided under the compulsory plan." At the time, the CES estimated that they could deliver annuities with relatively low premiums which would provide a modest lifetime annuity, with a potential government matching contribution for people of modest incomes. When combined with the current Social Security system, a similar program could compensate for the decline in private defined benefit pensions, allowing people to save for retirement without relying on the charity of their employers or the vagaries of the stock market.

Another option would be to improve the basic Social Security benefit to above the poverty line. In the period of Social Security's expansion as discussed above, both Congress and the Social Security system deliberately designed Social Security to be a foundation which would be complemented by private pensions. By increasing the basic retirement benefit at least to the level of poverty, the balance between public and private responsibility for seniors could be gradually shifted, and great improvements would be made for the 9.4% of seniors who still live in poverty and the 22.4% of seniors who live within 150% of poverty.[12]

Yet a third option would be to adapt the current Social Security system to new circumstances of both longer life spans and more active early years of retirement. Allowing active seniors to take a half-pension and work at half-time without losing their right to a full pension upon their retirement would both reduce the strain on the Social Security system and ensure that seniors could ease their way into retirement while building up savings, clearing the way for more young people to find jobs.

[12] Cawthorne, Alexandra. "Eldery Poverty: The Challenge Before Us." Center for American Progress. July 30, 2008.

Pursuing these reforms through the Social Security Act would greatly smooth the way through the legislative process, as legislators are already familiar with passing Social Security enhancements, and such changes would have the political support of powerful constituency groups.

## From the Cradle: Towards Universal Child Care

The single greatest indictment of our failing social safety net is that the most vulnerable segment of our society is composed of children. 21% of American children live in families below the poverty line; another 22% of children live in "near poor" families within 100-200% of the poverty line, where a sudden illness or job loss or other crisis can easily send the family into the ranks of the destitute. The long term trend is even more sobering, as the National Center for Children in Poverty reports: "Between 2000 and 2007, the number of children of all ages who were poor increased by 15%. During the same period, the number of children under age 6 who were poor increased by 24%."

> "It must not for a moment be forgotten that the core of any social plan must be the child. Every proposition we make must adhere to this core. Old-age pensions are in a real sense measures in behalf of children. ...unemployment compensation is a measure in behalf of children in that it protects the home. Most important of all, public-job assurance which can hold the family together over long or repetitive periods of private unemployment is a measure for children in that it assures them a childhood rather than the premature strains of the would-be child breadwinner."
> *– Report to the President, Committee on Economic Security (1935)*

The reform of Aid to Families with Dependent Children (AFDC) enacted in 1996 did many things, but it did little to help with the costs of raising a child on a low-wage job. Looking broadly at children in low-income families, 51% have at least one parent who works full time, and 80% have at least one parent who works either full or part time. In recent years, the Earned Income Tax Credit (EITC) and the Child Tax Credit have been used as our main vehicles for preventing working poverty in families with children. Yet as the data shows, this has done little to stem the tide of child poverty.

Including child care within the Social Security system would serve to realize the dreams of New Dealers, especially the feminist activists of the Children's Bureau, who fought to include Aid to Dependent Children (and later Survivor's Insurance) within the Social Security system. Programs that seriously cut the rate of child poverty would be doubly effective in reducing major sources of economic insecurity and risk in American society, given the high level of poverty among children and the economic burden of providing for a new child in a low-income household.

A system of federal child care provision would complement the existing Social Security system by providing additional resources to families that may already be in need of social insurance. For example, the Social Security Act could consolidate existing programs like the EITC and Child Tax Credit systems into more readily accessible and more universal benefits, providing greater assistance to near-poor, working class, and middle class families, thereby reducing economic insecurity.

Another option might be to leverage the political prestige of the Social Security Act by consolidating existing programs like Head Start or new programs like paid family and parental leaves under the Social Security banner. In this fashion, it might be possible to log-roll the expansion of child care with improvements to other areas of the Social Security Act, creating new political alliances.

## The Cost of a Fair Share: Financing the Social Security System

One of the strangest aspects of America's social welfare system is that we fund one of our most progressive social policies – Social Security – with an incredibly regressive tax.

The FICA tax, which accounts for over a third of Federal revenue, taxes 12.4% of wages up to $102,000 a year (plus 2.9% for Medicare), split between employer and employee. It is deeply regressive in two ways: first, it places an equal burden on employer and employee, despite the fact that the employee has to live on their income, whereas the employer usually has substantial financial reserves, assets in capital goods, real estate, and the like, not to mention superior access to credit. Second, because a flat rate is applied to a capped wage base, poor, working class, middle class, and even quite affluent Americans pay their share of the 12.4% on 100% of their income. The wealthiest Americans are treated completely differently by the FICA system because they pay tax on only a portion of their income. Hence, while a janitor making $20,000 a year pays the full 12.4%, a lawyer making $500,000 a year effectively pays only 2.5%, and millionaire bankers pay a paltry 1.2%. Not only is the payroll tax regressive in broad terms, but it becomes increasingly regressive as one ascends the income scale; the payroll tax is not just a poor man's burden – it even advantages the mega-wealthy over the merely-wealthy.

> The expense of defending the society, and that of supporting the dignity of the chief magistrate, are both laid out for the general benefit of the whole society. It is reasonable, therefore, that they should be defrayed by the general contribution of the whole society, all the different members contributing, as nearly as possible, in proportion to their respective abilities.
> *– Adam Smith, Wealth of Nations, Book 5, Chapter 1, Part 4*

It gets worse. Because we rely heavily on payroll taxes to fund major social programs, it has become cheaper for companies to pay outrageous salaries to their highest-paid executives, since they don't have to pay payroll taxes on salaries above $102,000, than it would be for the same firms to use that money to hire new workers and pay their share of the payroll tax on the whole dime.

## Reforming the Payroll Tax, Reforming the Social Security System

In the Social Security Act, we have a potential vehicle for reforming the financing of the Social Security system; this also means that we have the potential for adjusting the fundamental design of the American welfare state. By making the payroll tax more or less progressive, by shaping eligibility standards (through changing who's taxed) to be more or less inclusive, and by expanding or shrinking the pool of resources that can be devoted to benefits, the system of social protection takes on an entirely new character.

For example, removing the cap on the FICA tax would both shift the system towards a more progressive stance and expand the resources available for benefits. Simply lifting the payroll tax cap would produce $125 billion a year, and as the Social Security Administration calculates, cover 93% of the projected funding gap for Social Security and Medicare for the next three-quarters of a century.

Another option, making the payroll tax progressive so that lower income workers would pay a lower rate and vice versa, would make the Social Security system much more redistributive. As progressive economists like L. Randall Wray have argued, lowering the payroll tax on most workers would have a beneficial knock-on effect of increasing the rate of job creation by making it less expensive to hire all but the highest-paid workers.

The payroll tax could also be made more progressive by replacing income tax credits, like those for housing and child care, with payroll tax credits, as Michael Graetz and Michael Lind have suggested. The bottom half of the population, who pay payroll taxes but not income taxes, do not qualify for income tax credits today, except for the earned income tax credit and the child tax credit, both of which are refundable (available in the form of government subsidies to Americans who have no income tax liabilities). Replacing income tax credits with a smaller number of consolidated payroll tax credits might be easier than making all income tax credits refundable.

Changing the base of the FICA tax should also be considered. As Sherle Schwenninger has suggested, one possibility would be to include unearned as well as wage income in the FICA base, transforming it from a narrow tax on labor into a broader "social contract" tax.

Finally, supplementing the FICA tax with other revenue streams (a VAT tax, a Tobin tax on financial transactions, general revenue, etc.) or replacing it entirely would separate the social welfare system from the labor market, while establishing a more direct responsibility of the federal government for social provision. Medicare is already funded partly by payroll taxes and partly by general revenues, and many countries use similar mixtures of funding streams for their social insurance programs.

## The Social Security Act as a Framework for Reform

When we remember America's landmark achievements in social policy, we tend to think in "big bangs." The First Hundred Days, the Great Society, and other similar moments draw attention because we recall them as sweeping transformations, the creative moment in the history of public policy. Yet the success or failure of these grand initiatives is often decided not in the moment, but in the less noteworthy process of amendment and oversight that follows, gradually expanding the boundaries of social protection.

Today we are in desperate need of solutions that cover everyone. How do we get from here to there? One option would be to try to cobble together a new system of social protection through a succession of major bills on health care reform, financial regulation, and the like, hoping that the outcome will be a harmonious alignment of programs that work side by side to provide systemic security. Yet by running the gauntlet of the legislative process again and again, a master push for reform could lose momentum halfway through, leaving gaps that may create vulnerabilities in the next recession.

After the original Social Security Act was passed into law, a different strategy was at work. The basic framework of legislation was laid down, so that public servants and experts only had to add onto the existing infrastructure. Over the decades, the Social Security system was repeatedly reformed to be more inclusive, more generous, and more progressive.

This history of gradual change has made the Social Security Act a vehicle for reform that builds on the habits and customs of Congress. The Senate and the House are all too familiar with the stakeholders and interest groups who travel with the existing system, and the ins and outs of the amendment process. In the eyes of Congress, there is far less danger in treading the well-worn path, particularly compared to the pitfalls involved in proposing novelties than can be easily demonized or hijacked.

Most important, the regularity of the amendment process itself has the virtue of constancy. Instead of an all-or-nothing effort every ten or twenty years, reformers can keep pushing every few years for extensions and additions, restoring the Social Security Act to its once vaunted place as the bedrock center of the American social contract.

The advantage to using the Social Security Act to reinforce and complete the American social contract – rather than starting repeatedly from scratch – is that it would allow for any number of options to be experimented with. Gradual amendments to the underlying legislation could be introduced, as they were in the past, enabling progressives to work their way gradually from one amendment to the next. Moreover, by pairing revenue amendments with benefit amendments, changes to the Social Security system can be made to pay for themselves, avoiding the contentious political infighting between deficit hawks and reformers.

## Conclusion

76 years ago, a small group of experts and intellectuals gathered in the offices of the Federal Emergency Relief Administration and hammered out America's first plan for a system of comprehensive social security. The Committee on Economic Security had a rare advantage as policy designers: they were engaged in the creation of something entirely new in the history of the United States. Their political imaginations could roam freely without the boundaries of precedent and established practice, making the Social Security Act rare among social legislation as a unitary grand vision of reform.

> "We are determined to make every American citizen the subject of his country's interest and concern; and we will never regard any faithful law-abiding group within our borders as superfluous. The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little."
> *– Franklin Delano Roosevelt, Second Inaugural Address (1937)*

Today, we are faced with a more daunting task. Our neglect of the Social Security system, or at least those elements not involved with old-age pensions, have bequeathed us a society that is more disjointed, more willing to tolerate the suffering of others, and less trusting in the ability of the democratic process to ensure the common good. At the same time, a host of powerful vested interests have an enormous stake in the system as it exists, and a ubiquitous common wisdom has emerged among the traditional media that the only definition of "Social Security reform" is "cutting benefits and raising the retirement age."

The rewards of transforming the Social Security Act into a yearly rite of solidarity far exceed the potential costs. By returning to a vision of collective mutual assistance in times of need, we can renew America's social contract and restore our sense of common purpose. As citizens once more recognize that they share in the benefits as well as the costs of the Social Security system, they may come to recognize the legitimate purpose of government, which is to provide a reliable safety net for all of us.

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