Social Security and Medicare

POSC 459 — Social Welfare Politics and Policy

Week 5 · Wednesday, September 23

Howard ch. 4, second half · Berkowitz and DeWitt, "Social Security" · Oberlander, "Medicare"

Today

1. **Howard ch. 4, finished:** the ADA, the Child Tax Credit, and layers (~15 min)
2. **Social Security:** the bet of 1935, and two documents that need its story (~30 min)
3. **Medicare:** the fallback of 1965 (~15 min)
4. **Pierson and Howard, tested** (~5 min)

Where we left it

ERISA, 1974: a Republican senator carried the bill for seven years, a Democratic president refused it twice, and two Democratic committee chairs were the obstacle.

Howard's own objection: Jacob Javits was a liberal Republican in a less polarized Congress. **The easy case.**

The test. Howard expected **logrolling:** Republicans show up late and let a Democratic program pass as the price of something else. What would tell logrolling apart from leadership?

- Who introduced it, and when the Republicans arrived.
- What the Republicans said the program was *for.*
- Whether they fought for it when they could have let it die.

The ADA begins with a purge

1980. Congress orders reviews of people on the disability rolls. The Reagan administration speeds them up. Between March 1981 and April 1982 it declares ineligible **almost half of the 400,000 cases reviewed.** The final count approaches **half a million people.** Hearings fill with people who are plainly disabled. By 1984 they are winning in court "on a regular basis."

Meanwhile. Reagan's Task Force on Regulatory Relief, chaired by Vice President George Bush, sets out to weaken Section 504, the rule barring federal contractors from discriminating against the handicapped. The more the task force learns, the more it concludes government should do more. It reverses itself in 1983.

C. Boyden Gray, the task force's counsel, on what policy should aim at:

> "to turn as many of the disabled as possible into taxpaying citizens." (p. 81)

Roughly 13 million adults had a work disability. About 2.5 million of them received Food Stamps and Medicaid.

The ADA: who built it

- **The proposal came from Reagan appointees.** The National Council on the Handicapped, with Justin Dart Jr., issued *Toward Independence* in 1986 and named the law it wanted: an Americans with Disabilities Act.
- **First bill, April 1988:** Lowell Weicker, Republican of Connecticut, and Tony Coelho, Democrat of California.
- **Then the Democrats trimmed it.** Ted Kennedy and Tom Harkin led with a more modest version:

> "In other words, two of the Senate's leading liberals were backing away from regulation-expanding recommendations made by Reagan appointees." (p. 83)

- **Bush ran on it.** At the 1988 convention he pledged to "do whatever it takes to make sure the disabled are included in the mainstream." The Louis Harris organization estimated that disabled Americans who usually voted Democratic and switched in 1988 accounted for **up to one-half of his winning margin.**
- **Senate Republicans Bob Dole and Orrin Hatch led.** Speaker Jim Wright and Majority Leader Tom Foley, both Democrats, were reluctant.
- **The deal:** punitive damages dropped, business coverage broadened. An amendment to exclude people with HIV/AIDS was defeated.

House, 377 to 28. Senate, 91 to 6. Signed July 26, 1990, before three thousand people on the South Lawn.

The Child Tax Credit: "undeniably their baby"

Mid-1980s. Both parties compete to be the pro-family party. Liberal Democrats and the Children's Defense Fund want grants for child care and regulation of providers. Republicans want help that also reaches a parent who stays home.

- **1988–89:** Bush proposes a $1,000 children's tax credit against Dukakis. Dole introduces a child care tax credit bill with twenty-six cosponsors, **all of them Republicans.**
- **1990 budget deal:** $15 billion in tax breaks against $4 billion in grants. The White House calls the Young Child Tax Credit **"non-negotiable."** Clinton ends it in 1993 and expands the EITC instead.
- **1994–97:** the Contract with America promises $500 per child, for families earning up to $200,000. Clinton endorses it, and it passes in the Taxpayer Relief Act of 1997.

> "While President Clinton deserves some credit for creating this program, Republicans deserve more." (p. 87)

By 2002 it cost $27 billion a year, more than TANF.

Since the book: the credit is **$2,200 per child** for 2026, up to $1,700 of it refundable, made permanent by the 2025 reconciliation law under a Republican president and Congress. For one year, 2021, a Democratic Congress raised it to $3,000 and $3,600 per child and paid half of it monthly. That version expired.

Plan B: build a layer

Republicans tried cutting programs and learned that retrenchment was painful "not just to beneficiaries but to their own political careers." That is Pierson, from the inside. So:

> "In all three cases studied here, Republicans designed new social programs in order to curb existing programs." (p. 89)

New program	What it was supposed to hold down
ERISA, and indexing benefits in 1972	Social Security's growth and the payroll tax
ADA	Rolls for disability benefits and medical care
Child Tax Credit	Demand for subsidized day care and child care grants

The case that proves the rule. Bush signed the ADA and **vetoed family leave twice,** in 1990 and 1992. Howard's explanation: family leave had no "clear potential to reduce social spending elsewhere."

Howard borrows Jacob Hacker's word, **layering:** what is too durable to replace, you build on top of.

> "Often at odds over building up or tearing down the American welfare state, the two parties decided to add new rooms in different architectural styles." (p. 91)

Social Security, then and now

Berkowitz and DeWitt wrote with 2010 and 2011 numbers. Where the chapter and the slide differ, you get both.

	The chapter (2010–11)	Now
Beneficiaries	More than 55 million	**71.3 million** (July 2026)
Average monthly retirement benefit	$1,181	**$2,086** (July 2026)
Payroll tax	12.4 percent on the first $106,800	12.4 percent on the first **$184,500** (2026)
Full retirement age	66, rising to 67	67 for everyone born in 1960 or later
Elderly poverty	9 percent; 44 percent without Social Security	**9.8 percent** in 2025, official measure; 15.4 percent on the supplemental measure
When the trust funds run short	No date given	Retirement fund: **late 2032,** then 78 percent of scheduled benefits. Combined with disability: 2034, then 83 percent

How it works. Workers and employers split a payroll tax. Today's taxes pay today's retirees. The benefit formula is tied to your own earnings and tilted toward lower earners. Benefits are paid "as a matter of right": there is no means test, and "no one is too rich to qualify." Spouses, survivors, and disabled workers are covered too.

1935: a bet, and a hedge

> "They wagered that a social insurance system financed completely by payroll contributions could be successfully implemented and sustained into the future." (p. 263)

The bet was bad politics for fifteen years.

- The tax started in 1937: 2 percent, split between worker and employer, on the first $3,000. The first monthly checks were scheduled for **1942**, later moved up to 1940.
- **Half of all workers were left out,** farm and domestic workers among them, who "were the majority of black labor force participants at the time" (p. 272).
- Through the 1940s Congress froze the scheduled tax increases again and again and twice trimmed coverage.

> "A program that existed primarily as a tax rather than a benefit ... faced the prospect of repeal." (p. 264)

The hedge was Old Age Assistance: means-tested, run by the states, paying from day one, with more friends in Congress. Howard's box 3.1 has the 1948 numbers: the average Old Age Assistance check was **50 percent larger** than the average Social Security check, and it had about 50 percent more recipients.

Two documents, one origin story

You read one of them: the **Heritage** brief (Greszler 2021) or the **CBPP** fact sheet (2024). Two advocacy documents on one program, written from opposite sides.

Five minutes, in writing, on your own:

1. What does your document need the origin story of Social Security to be?
2. What does it leave out to make that story work?

Then: two or three voices from each side.

Then put Howard against both. If Republicans built much of this, and built around the rest, which document's politics survives that fact? Whose doesn't?

1950 to 1983: built, then trimmed with care

The triumph of 1950. Congress extends coverage to the self-employed and to farm and domestic workers, and raises benefits. Rural members of Congress now have constituents with a stake. Social Security passes Old Age Assistance during the decade.

The ritual. Actuaries assumed wages would stay level. Wages rose, so the system kept showing surpluses, and Congress kept spending them:

> "In this manner, a regular ritual developed after 1950 of raising benefits in election years." (p. 265)

Democrats held Congress "for all but two years" between 1949 and 1981 and took the credit. Program administrators helped: they "took deliberate steps to remove some of the program's political liabilities."

1972. A 20 percent increase, and automatic cost-of-living adjustments starting in 1975. Nixon and other Republicans "welcomed indexation."

1983. Indexing met the inflation of the 1970s and the system ran short. A bipartisan commission, then a deal between Reagan and Speaker Tip O'Neill, roughly half revenue and half cuts: benefits partly taxable, the cost-of-living adjustment delayed six months, the retirement age raised from 65 to 67, **phased in over decades.**

Nobody's check went down. The retirement age rose on people who were in their twenties. That is Pierson's traceability, used on purpose.

Lock-in, tested

Pierson, 1993, on what Monday's table called lock-in:

> "Individuals make important commitments in response to certain types of government action. These commitments, in turn, may vastly increase the disruption caused by new policies, effectively 'locking in' previous decisions." (Pierson, p. 608)

Social Security pays today's retirees with today's payroll taxes. Move to private accounts and "current workers would have to finance both their parents' retirement and their own. This made any major privatization initiative in the United States unthinkable" (p. 609). In Britain no earnings-related pension ever matured, and Thatcher could move toward private provision.

The test. After 1983 conservative critics stopped proposing cuts and offered **personal accounts.** George W. Bush made them the centerpiece of his second term. The plan "failed to take hold." Berkowitz and DeWitt's first reason is **transition costs,** which is Pierson's double-payment problem. The others: no private answer for disability and survivors coverage, and stock returns that "turned sharply lower in the period after 2001."

A prediction made in advance, and it held. What would it take to break it?

What it does, what it cannot fix, and the gap

> "Social Security was the nation's most important antipoverty program, in part because it did not target its benefits exclusively to the poor." (p. 271)

The cost of that design: "inequalities that exist in the workplace get reflected in Social Security benefits" (p. 272). Lower lifetime wages and years out of the labor force come out as smaller checks, and defending the program crowds out fixing it.

The 2026 Trustees report: the retirement fund spends down its reserves in **late 2032;** payroll taxes then cover **78 percent** of scheduled benefits. The 75-year gap is **4.42 percent of taxable payroll.**

Option	The authors' objection
Raise the retirement age	A benefit cut, hardest on manual laborers
Change the indexing formulas	A benefit cut, for current and future retirees
Means-test benefits	The affluent may lobby to leave, and take their payroll taxes along
Raise or remove the tax cap	Higher taxes also earn higher benefits; clawing those back recreates the exit problem

> "Pushing in at one place invariably produces a bulge somewhere else." (p. 275)

Medicare: the fallback, and what passage cost

Reformers lost on national health insurance from 1915 through Truman. By 1951 his officials had a smaller idea: hospital insurance for retirees already on Social Security.

> "insurance for the elderly [was] a fallback position, which we advocated solely because it seemed to have the best chance politically." — Robert Ball (p. 298)

In 1962, 47 percent of elderly families were below the poverty line and only a quarter of seniors had meaningful health coverage. The design copied Social Security: "an earned right, not a handout."

1965. The 1964 landslide gives Democrats large majorities. Wilbur Mills, who had blocked the bill for years, takes it over, adds physician coverage, and adds Medicaid.

The price. Medicare paid hospitals and doctors whatever they said care cost, after the fact.

> "Permissive payment policies were a political price paid to mollify medical providers and assure Medicare a smooth start." (p. 301)

Nineteen million people enrolled within a year. Hospitals in the South desegregated to qualify.

Medicare, then and now

Part	Covers	Paid for by
A (1965)	Hospital stays	Payroll tax, into a trust fund
B (1965)	Doctors and outpatient care	General revenues (75 percent) and premiums (25 percent)
C "Medicare Advantage"	A private plan in place of A and B	Federal payments to insurers
D (2003)	Prescription drugs, through private plans only	General revenues and premiums

What it still does not cover: long-term nursing home care, most dental and vision care, hearing aids. Traditional Medicare has no cap on what you can pay out of pocket.

	The chapter (2010–13)	Now
People covered	Nearly 50 million	**70.5 million** (May 2026)
Spending	$590 billion (2013)	**$1.21 trillion** (2025)
In private Medicare Advantage plans	About 30 percent	**55 percent** of those eligible (March 2026)

From expansion to cost control

The architects expected benefits to grow toward national health insurance. Benefits barely moved. Costs took over the agenda.

- **1972:** coverage extended to people on disability insurance and people with kidney failure. The last big expansion for three decades.
- **1983:** hospitals paid a fixed rate per diagnosis, set in advance. Backed by both parties.
- **1988–89:** the Medicare Catastrophic Coverage Act adds an out-of-pocket cap and drug coverage, paid for partly by a surtax on better-off beneficiaries. **They revolt. Congress repeals it the next year.**
- **2003:** Part D. Covers 75 percent of drug costs up to $2,250, then nothing until $5,100: the "doughnut hole." Passed by a Republican president and Congress, delivered only through private plans, and not paid for.
- **2010:** the ACA fills the doughnut hole, trims payments to private plans, and books $500 billion in Medicare savings.

Policymakers preferred "imposing pain on medical care providers than on retirees." Excess cost growth per beneficiary fell from 5.6 percent a year (1975–83) to 0.5 percent (1997–2005).

Three things that drive Medicare politics

1. Interest groups, weakened by deficits. Hospitals, doctors, insurers, and drug makers form a "Medicare-industrial complex." But seniors have the votes, so cuts land on providers.

> "Interest groups, then, greatly influence but ultimately do not run Medicare." (p. 306)

2. The end of bipartisanship.

> "Since 1995, bipartisanship in Medicare politics has eroded and program policy has moved rightward." (p. 307)

Paul Ryan's 2011 plan would have replaced Medicare with a voucher. CBO's estimate: a typical 65-year-old would pay **68 percent** of their own costs by 2030, against 25 to 30 percent under current law. After the backlash it was softened into "premium support."

3. The trust fund as a recurring crisis.

> "If Medicare was funded exclusively from general revenues, like defense programs, then policy makers would surely still fret over rising costs, but impending 'bankruptcy' would never be an issue." (pp. 307–308)

The 2026 Trustees report has the hospital trust fund running short in **2033,** after which the payroll tax covers 89 percent of costs. *(The chapter: 2030.)* Oberlander's point is that the date keeps moving and the alarm keeps recurring.

Pierson and Howard, tested

	Social Security	Medicare
Pierson: programs make their own politics	**Holds:** once coverage widened in 1950, members of Congress had constituents with a stake; the AARP and older voters became hard to dislodge; privatization failed on transition costs. **Complicates:** lock-in took fifteen years and administrators worked at it; real cuts passed in 1983; the same constituency now blocks reforms that would help women and caregivers	**Holds:** seniors steer cuts toward providers; the Ryan voucher died in a backlash. **Complicates:** beneficiaries killed an expansion in 1989; lock-in never produced the national health insurance its architects expected; the program moved right from the inside, through private plans
Howard: Republicans built it too	**Holds:** Nixon and indexing; Reagan co-signed the 1983 rescue; tax-favored retirement accounts. **Cuts against:** Democrats held Congress for all but two years from 1949 to 1981 and claimed the increases	**Cuts against:** in 1965 Republicans sat inside the opposing coalition. **Holds, with a twist:** the largest expansion since 1965, Part D, came from a Republican president and Congress, and they built it through private insurers

Neither chapter cites Howard. Both cite Pierson.

For your brief: run the same two tests on your program. Who built it, and what were they trying to hold down? Whom did it organize, and what have they blocked since?

Which one is safer in 2040?

	Social Security	Medicare
What it pays	Cash, by formula	Medical bills
Who gets the money	Retirees, survivors, disabled workers	Hospitals, doctors, insurers, drug makers
How it has changed since 1995	Hardly at all	From the inside, toward private plans

Hands up. Then tell me why.

Due and next

- **The Scaffold is open.** First session after you have read two things about your program: the agency's own description and one document from the **Policy Brief — Program Sources** page.
- **Program switches:** by email, until **Friday, October 2.**
- **Week 6, the safety net, part 1 (TANF, SNAP, the EITC):** Howard ch. 5 · Campbell chs. 1–3 · Desmond ch. 5.
- **Discussion Paper 2** is due **Friday, October 2,** 11:59 p.m.