The New Economic Insecurity—And What Can Be Done About It

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Over the past generation, the economic risks American families face have increased substantially. Yet public programs have largely failed to adapt to these new and newly intensified risks, and private workplace benefits have eroded.[1] As a result, Americans increasingly find themselves on an economic tightrope, without an adequate safety net if, as is ever more likely, they lose their footing. This tightrope both creates anxiety about the future and causes hardship when families do lose their balance. But importantly, it also threatens opportunity by making it more difficult for families to feel sufficiently secure to look confidently toward the future and make the risky investments—in skills, education, and assets—necessary to prosper in a highly dynamic and uncertain economy.

In response to these worrisome trends, I call for a "security and opportunity society"—a vision that is starkly opposed to the ideal of an "ownership society" outlined by leading conservative critics of the welfare state.[2] The premise of the conservative ownership society is that we can be free to pursue the opportunities in our lives only if we do not share risks with others—if, for example, we have an individual Social Security account from which we alone benefit in retirement, or a personal Health Savings Account that allows us to finance routine health expenses solely on our own. A security and opportunity society, by contrast, is based on a very different premise: that we are most capable of fully participating in our economy and our society, and most capable of taking risks and looking toward our future when we have a basic foundation of financial security. In this view, economic security is not at odds with economic opportunity; it is its cornerstone. Restoring a measure of economic security in the United States today is the key to transforming the nation's great wealth and productivity into an engine for broad-based prosperity and opportunity in a more uncertain economic world.

The argument proceeds in three parts. First, I briefly review the evidence that Americans are at increased economic risk, drawing on my re-

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[1] *See* Jacob S. Hacker, *Privatizing Risk Without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States*, 98 AM. POL. SCI. REV. 243, 251–56 (2004).

[2] *See generally* David Boaz, Cato Inst., Defining an Ownership Society (2003), http://www. cato.org/special/ownership_society/boaz.html.

cent book, *The Great Risk Shift.*[3] Second, I outline a set of principles for restoring economic security in the United States—principles that, I argue, demand bold and immediate action. Finally, I develop an agenda for change that will help restore job security, retirement security, health security, and income security in the United States, so that all Americans have the financial foundation they need to invest in their futures with optimism and confidence.

I. America's Hidden Insecurity

We have heard a great deal about our nation's rising inequality, the growing gap between the rungs of our economic ladder. And yet, to most Americans, inequality is far less tangible and worrisome than a trend we have heard much less about: rising *insecurity*, or the growing risk of slipping from the ladder itself.

Consider some alarming facts. Personal bankruptcy has gone from a rare occurrence to a routine one, with the number of households filing for bankruptcy quadrupling between 1980 and 2005.[4] Americans are also losing their homes at record rates. Since the early 1970s, there has been a fivefold increase in the share of households that fall into foreclosure—a legal process that begins when homeowners default on their mortgages and can end with homes being auctioned to the highest bidder in local courthouses.[5]

Middle-class jobs are also less secure. The proportion of Americans formally out of work at any point in time has remained low. However, the share of workers who lose a job involuntarily over a three-year period has actually been rising and is now roughly as high as it was in the early 1980s, during the worst economic downturn since the Great Depression.[6] No less important, these job losses come with growing risks. For displaced workers, the prospect of gaining new jobs with relatively similar pay and benefits has fallen, and the ranks of the long-term unemployed and "shadow unemployed"—workers who have given up looking for jobs altogether—have grown.[7]

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[3] Jacob S. Hacker, The Great Risk Shift: The Assault on American Jobs, Families, and Health Care—And How You Can Fight Back (2006).

[4] Elizabeth Warren, *The Vanishing Middle Class*, *in* Ending Poverty: How To Restore the American Dream (John Edwards, Marion Crain & Arne L. Kalleberg eds., forthcoming 2007).

[5] Peter J. Elmer & Steven A. Seelig, *The Rising Long-Term Trend of Single-Family Mortgage Foreclosure Rates* 26 (Fed. Deposit Ins. Corp., Working Paper No. 98-2, 1998), *available at* http://www.fdic.gov/bank/analytical/working/98-2.pdf. Recent foreclosure data are available in U.S. Census Bureau, Statistical Abstract of the United States: 2006, 768 tbl.1181 (2005), *available at* http://www.census.gov/compendia/statab/banking_finance_insurance/banking.pdf.

[6] Henry S. Farber, *What Do We Know About Job Loss in the United States?*, Econ. Persp., Jan. 2005, at 13, 14, *available at* http://www.chicagofed.org/publications/economicperspectives/ep_2qtr2005_part2_farber.pdf.

[7] Katharine Bradbury, *Additional Slack in the Economy: The Poor Recovery in Labor*

American families also face increased insecurity as a result of the erosion of workplace benefits. The number of Americans who lack health coverage altogether has increased with little interruption over the last twenty-five years as corporations have cut back on insurance for employees and their dependents.[8] Over a two-year period, more than 80 million adults and children—one out of three non-elderly Americans—spend some time without the protection that insurance offers against ruinous health costs.[9]

At the same time, companies have raced away from promising guaranteed retirement benefits. In 1980, 83% of medium and large firms offered traditional "defined-benefit" pensions that provided a fixed benefit for life. By 2003, the share was less than a third.[10] Instead, companies that offer pensions provide "defined-contribution" plans like the 401(k), which offers neither predictable nor assured benefits.

Perhaps most alarming of all, American family incomes are on a frightening roller coaster, rising and falling much more sharply from year to year than they did a generation ago. Indeed, the *instability* of families' incomes has risen faster than the *inequality* of families' incomes. Since the early 1970s, family incomes among working-age Americans (aged twenty-five to sixty-one) have become more than twice as unstable, even when government taxes and benefits are taken into account. While instability is higher for women than for men, higher for African Americans and Hispanics than for Whites, and higher for less-educated Americans than for more-educated Americans, it has risen across all these groups. Indeed, as Figure 1 shows, income instability has increased virtually as quickly at high as at low educational levels.

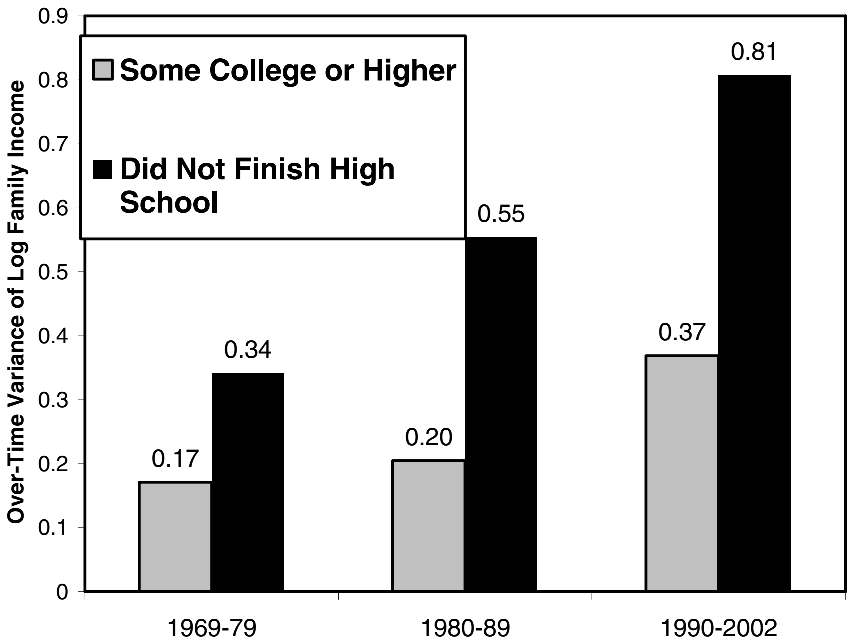
Force Participation During this Business Cycle 2 (Fed. Reserve Bank of Boston, Pub. Policy Brief No. 05-2, 2005), *available at* http://www.bos.frb.org/economic/ppb/2005/ppb052.pdf; *see* Andrew Stettner & Sylvia A. Allegretto, *The Rising Stakes of Job Loss: Stubborn Long-Term Joblessness amid Falling Unemployment Rates* 1 (Econ. Policy Inst. & Nat'l Employment Law Project, Briefing Paper No. 162, 2005), *available at* http://www.epi.org/briefingpapers/162/bp162.pdf.

[8] Gail R. Wilensky & Marc L. Berk, *Poor, Sick and Uninsured*, 2 HEALTH AFF. 91, 92 (1983), *available at* http://content.healthaffairs.org/cgi/reprint/2/2/91.pdf; *see* Albert B. Crenshaw, *Workers' Family Coverage Reaches $10,880 Average; Small Employers Dropping Plans as Costs Rocket Another 9%*, WASH. POST, Sept. 15, 2005, at D02; Milt Freudenheim, *Fewer Employers Totally Cover Health Premiums*, N.Y. TIMES, Mar. 23, 2005, at C1; Paul Fronstin, *Sources of Health Insurance and Characteristics of Uninsured: Analysis of the March 2006 Current Population Survey* 4 (Employee Benefit Research Inst., Issue Brief No. 298, 2006), *available at* http://www.ebri.org/pdf/briefspdf/EBRI_IB_10-2006.pdf.

[9] FAMILIES USA, ONE IN THREE: NON-ELDERLY AMERICANS WITHOUT HEALTH INSURANCE, 2002-2003, at 11 (2004), *available at* http://www.familiesusa.org/assets/pdfs/82million_uninsured_report6fdc.pdf.

[10] John H. Langbein, Understanding the Death of the Private Pension Plan in the United States 3 (Apr. 11, 2006) (unpublished manuscript, on file with the Harvard Law & Policy Review).

FIGURE 1: INCOME INSTABILITY INCREASED AT BOTH HIGH AND LOW EDUCATIONAL LEVELS

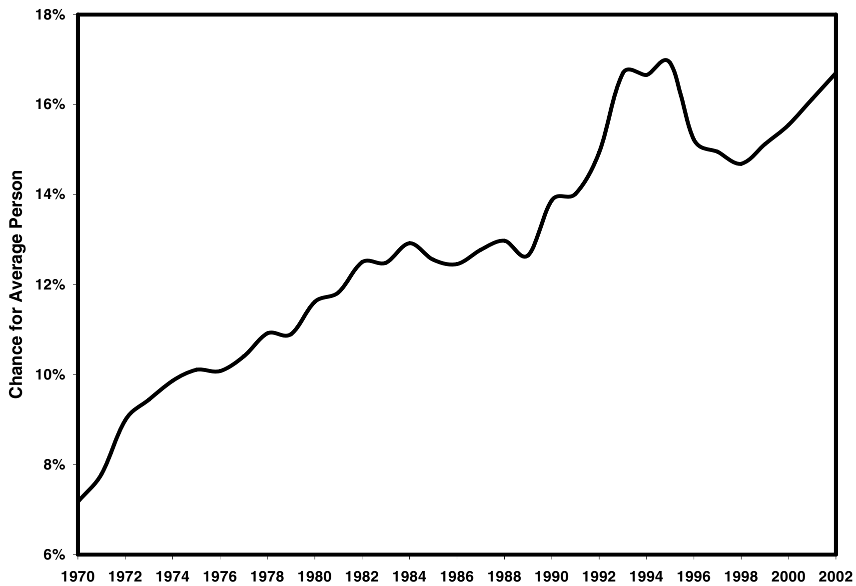


Note: These statistics are detailed in HACKER, THE GREAT RISK SHIFT, *supra* note 3, at 27–30. The calculations are based on the University of Michigan's Panel Study of Income Dynamics (PSID) and Cornell University's Cross-National Equivalent File (CNEF).

This increase in volatility is dramatic. About half of families in the PSID experience a drop in real income over a two-year interval, and this share has remained steady over time. Yet the size of the median decline has risen from around 25% of income in the early 1970s to around 40% by the late 1990s and early 2000s. Meanwhile, the predicted probability (based on a multivariate analysis) that an average working-age individual will experience at least a 50% drop in family income has also increased substantially. As Figure 2 illustrates, the predicted probability was just over 7% at the beginning of the 1970s. By 2002, it had more than doubled to nearly 17%.[11]

[11] JACOB S. HACKER, HAMILTON PROJECT, UNIVERSAL INSURANCE: ENHANCING ECONOMIC SECURITY TO PROMOTE OPPORTUNITY 6 (2006), *available at* http://www.brookings.edu/views/papers/200609hacker.pdf.

FIGURE 2: PREDICTED PROBABILITY OF 50% OR GREATER INCOME DROP, 1970–2002



Note: See HACKER, THE GREAT RISK SHIFT, *supra* note 3, at 31–32.

All this is particularly worrisome because both research and common sense suggest that downward mobility is far more painful than upward mobility is pleasurable. In fact, in the 1970s, the psychologists Daniel Kahneman and Amos Tversky gave a name to this bias: "loss aversion."[12] Most people, it turns out, are not just highly risk-averse, preferring a bird in the hand to even a very good chance of two in the bush; they are also far more fearful of bad outcomes than they are desirous of good outcomes of exactly the same magnitude**.** The search for security is, in large part, a reflection of a basic human desire for protection against losing what one already has.[13]

We have heard about many of these trends in isolation, but there has been a curious silence about what they add up to: a massive transfer of

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[12] *See* Daniel Kahneman & Amos Tversky, *Prospect Theory: An Analysis of Decisions Under Risk*, 47 ECONOMETRICA 263 (1979).

[13] This desire is surprisingly strong. Americans are famously opportunity-loving, but when asked in 2005 whether they were more concerned with "the opportunity to make money in the future" or "the stability of knowing your present sources of income are protected," 62% favored stability and just 29% favored opportunity. The Tarrance Group & Lake Snell Perry Mermin, George Washington Univ., GWU Battleground XXVII 12 (Mar. 9, 2005), http://www.tarrance.com/pdfs/Battleground-27-Q.pdf.

economic risk from broad structures of insurance, both corporate and governmental, onto the fragile balance sheets of American families. This transformation, which I call "The Great Risk Shift," is the defining feature of the contemporary economy and is as important as the shift from agriculture to industry a century ago. It has fundamentally reshaped Americans' relationships to their government, employers, and each other, and it has transformed the economic circumstances of American families—from the bottom of the ladder to its highest rungs.

II. Principles for Restoring Security

The Great Risk Shift is not a financial hurricane beyond human control. True, sweeping changes in the global and domestic economy have helped propel it, but America's leaders could have responded to these forces by reinforcing the floodwalls that protect families from economic risk. Instead, in the name of personal responsibility, many of these leaders are tearing down the floodwalls. Proponents of these changes speak of a nirvana of individual economic management—an ownership society in which Americans are free to choose. What these advocates are helping to create, however, is very different: a harsh world of economic insecurity in which far too many Americans are free to lose.

To be sure, we cannot turn back the clock on many of the changes that have swept through the American economy and American society. Nor can we transport ourselves back to a wistfully remembered time in which men and women committed to social insurance began constructing many of the institutions of risk-pooling that are now in tatters. Accepting our new economic realities does not, however, mean accepting the new economic insecurity, much less accepting the assumptions that lie behind the current assault on insurance. Americans will need to do much to secure themselves in the new world of work and family, but they should be protected by an improved safety net that fills the most glaring gaps in present protections, providing all Americans with the basic security they need to reach for the future as workers, as parents, and as citizens.

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

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

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

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

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

III. Dealing with Risks to Workers

Nowhere is the need for both restoration and reform more transparent than in our need to upgrade protections for the unemployed after decades of drift and neglect. Unemployment insurance has eroded dramatically in the last generation.[14] Ideas for restoring it are not hard to find, however, and the cost would be comparatively modest.[15]

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

Unemployment insurance, however, is not designed to deal with the most serious risk of losing a job—long-term declines, rather than temporary interruptions, in earning power and standard of living. There is increasing agreement among economists that some form of wage insurance is needed for workers displaced by trade or reengineering who are unable to find a new job with comparable pay or benefits.[16] These proposals are vastly superior to restrictions on company hiring and firing, which can lead to labor-market inflexibility. It is for this reason that even some of the most ardent free-marketeers support wage insurance.

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

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

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[14] *See generally* Michael J. Graetz & Jerry L. Mashaw, True Security: Rethinking American Social Insurance (1999).

[15] *See* Lori G. Kletzer & Howard F. Rosen, Hamilton Project, Reforming Unemployment Insurance for a Twenty-First Century Workforce 16–21 (2006), *available at* http://www1.hamiltonproject.org/views/papers/200609kletzer-rosen.pdf; Daron Acemoglu & Robert Shimer, *Productivity Gains from Unemployment Insurance* 1 (Nat'l Bureau of Econ. Research, Working Paper No. 7352, 1999), *available at* http://papers.nber.org/papers/w7352.pdf.

[16] *See generally* Lori G. Kletzer, Job Loss from Imports: Measuring the Costs 82–83 (2001).

start a family. This is not a pie-in-the-sky idea. California has already made the leap, and the results are encouraging. Moreover, the California experiment has not been very expensive, costing less than $2.25 per worker per month.[17] Meanwhile, Illinois is considering a paid-leave policy that would cost less than sixty cents per worker per week.[18]

IV. Securing Retirement

If young workers need assurances to raise the next generation of Americans, they also need assurances to plan for their own future. The incentives for higher-income Americans to save have ballooned with the expansion of tax-favored investment vehicles. Yet most Americans receive relatively modest benefits from these costly tax breaks. In the words of one knowledgeable commentator, our incentives for saving are "upside down," delivering most of their benefits to people who have substantial income and assets and virtually nothing to the vast majority of Americans who most need to save.[19] Replacing the current welter of tax breaks for non-retirement savings with a single Universal Savings Account that is most generous for Americans of ordinary means would go a long way toward restoring the balance.

Yet, when it comes to personal savings, the biggest challenge today is preserving a system of broad, guaranteed retirement pensions, including Social Security. Defined-benefit pensions are a thing of the past for workers who expect to retire in thirty or forty years, and defined-contribution plans, such as 401(k)s, are failing miserably to provide a secure foundation for workers' retirement. Securing our one guaranteed system, Social Security, is thus all the more essential.

The future financial threats to Social Security are well known, if often exaggerated. But dealing with them does not require abandoning the core elements of the program: guaranteed lifetime benefits paid on retirement, provided as a right, and linked to lifetime earnings. The funding shortfall within the program can be relatively easily closed by making Social Security benefits and the payroll taxes that fund them very modestly more progressive and by tying benefits to future longevity so that fortunate generations that live longer than the last receive slightly less from the program than now promised.[20]

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[17] Nat'l P'ship for Women & Families, Expecting Better: A State-by-State Analysis of Parental Leave Programs 9 (2005), *available at* http://www.nationalpartnership.org/portals/p3/library/PaidLeave/ParentalLeaveReportMay05.pdf.

[18] *Id.*

[19] *Strengthening Pension Security for All Americans: Are Workers Prepared for a Safe and Secure Retirement?: Hearing Before the H. Comm. on Educ. & the Workforce*, 108th Cong. 40 (2004) (statement of Peter Orszag, Joseph A. Pechman Senior Fellow, Brookings Inst.), *available at* http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_house_hearings&docid=f:92176.pdf.

[20] *See* Peter A. Diamond & Peter R. Orszag, Saving Social Security: a Bal-

Even with these changes, however, today's workers will need other sources of income in retirement. As they are presently constituted, 401(k)s are not the solution. Too few workers have access to them, enroll in them, put adequate sums in them, or roll the amounts in their accounts (so-called lump-sum payments) into other tax-favored retirement accounts when they leave a job.[21] Instead, we should create a universal 401(k) that is available to all workers, whether or not their employer offers a traditional retirement plan. Employers would be encouraged to match employee contributions to these plans, and the government could provide special tax breaks to employers that offered better matches to lower-wage workers.

Since all workers would have access to universal 401(k)s, there would no longer be the possibility that lump-sum payments would be spent instead of saved for retirement when workers lose or change jobs. All benefits would remain in the same account throughout a worker's life. As with 401(k)s today, workers could withdraw this money before retirement only with a steep penalty.

Unlike the present system, however, the same rules that now protect traditional pension plans against excessive investment in company stock would govern 401(k)s. What is more, the default investment option under 401(k)s should be a low-cost index fund with a mix of stocks and bonds that automatically shifted over time as workers aged, to limit market risk as they approached retirement. Finally, and no less important, there should be serious consideration of the idea of requiring that 401(k) accounts be transformed into a lifetime guaranteed income at age 65, unless workers specifically requested otherwise and could show they had sufficient assets to weather market risk. Moreover, to help workers plan ahead, 401(k) balances would be reported to account holders not simply as a cash sum, but also as a monthly benefit amount that workers would receive when they retired if they had an average life expectancy, just as Social Security benefits are reported.

V. Medicare Plus

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

To see why both costs and coverage must be tackled at once, consider the ubiquitous complaints about Medicare, the federal health program for

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anced Approach 79–99 (2005).

[21] *See generally* Alicia H. Munnell & Annika Sundén, *401(k) Plans Are Still Coming Up Short* (Ctr. For Ret. Research at Boston Coll., Issue in Brief No. 43, 2006), *available at* http://www.bc.edu/centers/crr/issues/ib_43b.pdf.

the aged and disabled. Medicare's costs are certainly rising rapidly, but that rise has little to do with Medicare and much to do with American health care. In fact, since payment controls were first introduced into the program in the early 1980s, Medicare's costs per patient have risen slightly slower, on average, than private health insurance spending per patient—despite Medicare's older and less healthy population.[22]

Certainly, Medicare faces serious strains. In particular, because it covers only the aged, its spending will increase with the retirement of the baby-boom generation in the coming years. Yet, the common critique of Medicare—that it is overly generous—is untrue. Medicare coverage is substantially less generous than the norm in the private sector. If we decide as a nation that we cannot "afford" Medicare, then we are deciding that we cannot afford to provide even relatively basic health care to the aged.

Few Americans, I am certain, are ready to accept this dismal conclusion—and rightly so. Almost every other advanced industrial country provides insurance not just to the aged, but to all citizens, while spending much less on a per-person basis than the incomplete system of the United States.[23] Furthermore, many of these nations have older populations than we do, have citizenries that go to the doctor more often, and have better basic health outcomes. Yet, their overall health spending remains far below ours and, in many cases, has also been growing more slowly.[24]

Furthermore, it is crucial to recognize that today's Medicare is very different from the model of thirty or forty years ago. That is because Medicare now allows beneficiaries to choose among a growing variety of private managed-care and fee-for-service options, which meet with overwhelming popular approval so long as they do not increase the cost of staying in the conventional Medicare program.

In the end, the main problem with Medicare has nothing to do with its effectiveness but rather with its limitation to the aged and disabled. This limitation hobbles Medicare's ability to control costs because the program's reach is so restricted. It also means that paying for Medicare inevitably pits the needs of younger Americans against the needs of older Americans. Additionally, it means that Medicare's costs are highly sensitive to the share of the population that is older than sixty-five. The United States is the only nation in which the day someone turns sixty-five, most of his or her health care costs suddenly turn up on the government's budget.

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[22] Cristina Boccuti & Marilyn Moon, *Comparing Medicare and Private Insurers: Growth Rates in Spending Over Three Decades*, 22 HEALTH AFF. 230, 235 (2003), *available at* http://content.healthaffairs.org/cgi/reprint/22/2/230.pdf.

[23] Steffie Woolhandler & David U. Himmelstein, *Paying for National Health Insurance—and Not Getting It*, 21 HEALTH AFF. 88, 92–93 (2002), *available at* http://content.healthaffairs.org/cgi/reprint/21/4/88.pdf.

[24] Gerard F. Anderson et al., *Health Spending and Outcomes: Trends in OECD Countries, 1960-1998*, 19 HEALTH AFF. 150, 151 (2000), *available at* http://content.healthaffairs.org/cgi/reprint/19/3/150.pdf.

Expanding Medicare to people younger than sixty-five would solve all three problems. It would increase Medicare's ability to control costs, as well as its ability to monitor and improve the quality of care. It would even out the nation's commitments to the young and the old. And it would make Medicare's future costs less frightening because they would not spike as the baby-boom generation retires. Of course, Medicare would have to be adapted to work for younger Americans, putting more emphasis on prevention and limiting out-of-pocket costs—but these upgrades would be good for older Americans too.

How could this be done? Very simply, in fact. All employers would be given an affordable choice: they could provide insurance at least as generous as an improved Medicare program, or they could pay a modest amount to Medicare to help finance coverage for their workers, who would then be enrolled automatically in the program. People enrolled in Medicare would pay a small additional premium based on their income and family size, and they could choose among a range of private plans as well as traditional Medicare.

I have developed this proposal, which I call "Medicare Plus," in considerable detail, and its costs and effects have been carefully estimated by the leading private firm that does such analyses.[25] The bottom line is straightforward and promising: roughly half of Americans would be enrolled in Medicare and half in employer-provided insurance; virtually no one would remain uninsured; and the cost would be slightly more than $110 in additional health spending per person per year. The savings produced by the new system would quickly cancel out the costs of covering the uninsured, relative to current trends in spending. Employers that now provide insurance would experience substantial savings since many pay much more than what the new system would charge (5% of wages). Yet, the costs for firms that do not now provide insurance would be modest.

Expanding Medicare in this way would not eliminate private employment-based insurance. It would simply give employers a new choice, while requiring that they make at least a minimal commitment to financing coverage for their workers. In higher-wage firms and unionized industries, it would still be in the best interest of companies to provide broad coverage—although some might decide it was better to supplement the new Medicare Plus program than provide coverage directly. The new framework would ensure, however, that everyone who works has secure

[25] For a basic description of Medicare Plus, see Jacob S. Hacker, Medicare Plus: Increasing Health Care Coverage by Expanding Medicare, http://www.kaisernetwork.org/health_cast/uploaded_files/Jacob_Hacker_Presentation.pdf (last visited Nov. 11, 2006). For a review of the plan, see John Sheils & Randall Haught, Cost and Coverage: Analysis of Ten Proposals To Expand Health Insurance Coverage app. e (2003), http://www.rwjf.org/files/research/costCoverageHacker.pdf. In the summer of 2006, Congressman Pete Stark introduced legislation based on this proposal. AmeriCare Health Care Act of 2006, H.R. 5886, 109th Cong. (2006).

health insurance, that many more workers can choose their plan (including a plan with free choice of doctors and specialists), and that firms that now struggle to provide health benefits, or cannot provide them at all, have an attractive, low-cost option for doing so. Because the new Medicare Plus program would cover approximately half of all Americans, moreover, it would have strong leverage to bargain for low prices on behalf of covered Americans and their employers.

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

VI. Universal Insurance

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

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

The label "Universal Insurance" is meant to connote two key features of the program. First, Universal Insurance would cover almost every citizen with any direct or family tie to the labor force, providing at least some direct benefits to virtually all families who experience covered risks. Second, Universal Insurance would cover a wide range of risks to family income. Universal Insurance is not a health program, a disability program, or an unemployment program. It is an income security program.[26]

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

Universal Insurance would aim to fill the gaps left by existing social insurance programs rather than replace these programs. It would thus be similar to private stop-loss insurance purchased by corporations to limit their exposure to catastrophic economic risks.

By providing limited protection against large and sudden income declines, Universal Insurance would provide a much more secure backstop against catastrophic economic loss than Americans now enjoy. Moreover, Universal Insurance would provide this backdrop through the popular and successful method of inclusive social insurance, which pools risks broadly across all working families.

Under Universal Insurance, all workers and their families would be automatically enrolled through their place of employment, paying premiums in the form of small income-related contributions (preferably including capital gains as well as labor income). In return for their premiums, workers would receive coverage for four potential shocks to family labor income that are large, serious, primarily beyond individual control, and incompletely protected against by present policies: (1) unemployment, (2) disability, (3) illness and maternity, and (4) the death of a family earner. In addition, Universal Insurance would provide coverage against catastrophic health costs—a leading source of economic strain. This coverage would apply to all families whose income was below a relatively high threshold (the ninety-fifth percentile of family income by state), and it would be available to families with assets as well as those without assets.[27]

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

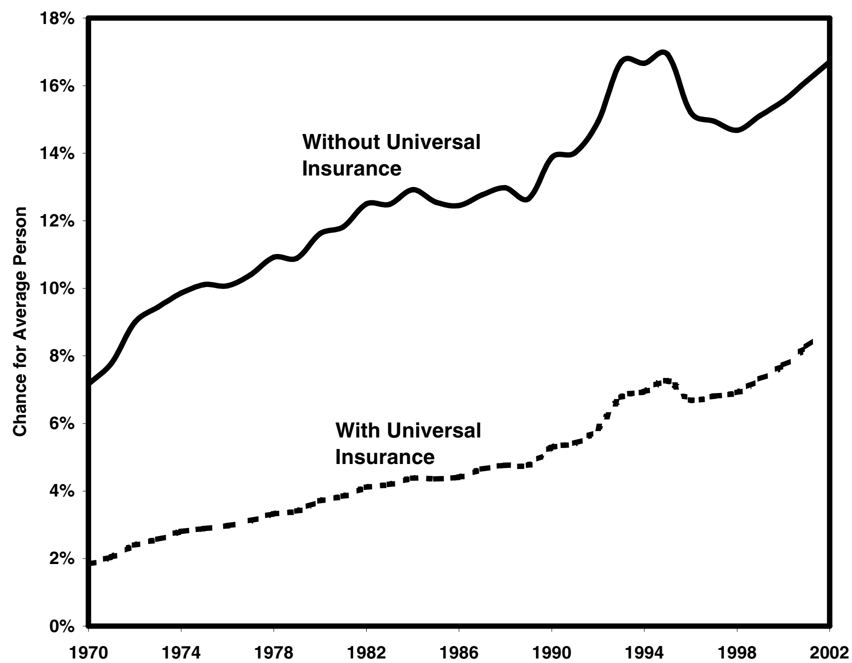
I estimate that Universal Insurance—with six months of unemployment and temporary disability benefits, a year of survivors' benefits, three months of sickness and maternity benefits, and coverage of catastrophic health costs—costs around $35 billion a year. This may seem like a huge sum, but it is less than 7% of Social Security and substantially less than what is spent to subsidize 401(k)s each year. For this sum, moreover, Universal Insurance provides comprehensive protection against a wide range of risks. Indeed, I estimate that it would cut in half the chance that Americans experience a drop in their income of 50% or greater (see Fig-

covers currently end up in poverty as a result—and would thus reduce the need for anti-poverty benefits in the first place.

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

ure 3), providing Americans with the basic economic security they need to reach for and achieve the American Dream.[28]

FIGURE 3: PREDICTED PROBABILITY OF 50% OR GREATER INCOME DROP, 1970–2002



Note: See HACKER, UNIVERSAL INSURANCE, *supra* note 11, at 15 – 17.

VII. A TIME FOR VISION

The goal of the reforms outlined in this Article is simple, understandable, and direct: *economic security for all working Americans*. If you work hard and do right by your family, you should not be insecure. You should not feel, as far too many Americans do, that a single bad step

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[28] HACKER, UNIVERSAL INSURANCE, *supra* note 11, at 17. There is growing evidence that key risk protections spur opportunity, rather than hinder it. Across states, for example, entrepreneurship is associated with more lenient bankruptcy laws. Wei Fan & Michelle White, *Personal Bankruptcy and the Level of Entrepreneurial Activity*, 46 J.L. & ECON. 543, 563 (2003). Across nations, private venture capital is associated with strong risk protections for investors. John Armour & Douglas Cumming, *The Legal Road to Replicating Silicon Valley* 11–15 (Ctr. for Bus. Research, Working Paper No. 281, 2004), *available at* http://www.cbr.cam.ac.uk/pdf/wp281.pdf.

or bad event means slipping from the ladder of advancement for good. The American dream is about security and opportunity alike, and rebuilding it will require providing security and opportunity alike.

All these changes, of course, will not come without costs, and they certainly will not come without political struggle. Yet, against the cost, one must balance the savings. Billions in hidden expenses are currently imposed by laws that facilitate bankruptcy, mandate emergency room care, and shower massive tax breaks on those at the top of the economic ladder who already enjoy enviable security. The elimination of these expenses must be accounted for when tallying up the bill, as should the huge drain that our current system imposes when people do not change jobs, do not have kids, do not acquire new skills—in short, do not invest adequately in their and their society's future—because they fear the downside risks.

We should also recognize that the United States spends as much money as many European nations on social welfare benefits when private employment-based benefits and relative tax burdens are taken into account.[29] We just spend these sums in ways that are wasteful, inefficient, and patently incapable of providing security to those who need it most.

Nor should we forget the principles at stake. If we acquiesce to the "creative destruction" of American-style capitalism, then we also have to accept that many Americans, at one point or another, will be hit with disasters that they cannot cope with on their own. Providing protection against these risks is a way of ensuring that the dynamism of our economy is politically sustainable and morally defensible. It is also a way of ensuring that Americans feel secure enough to take the risks necessary for them and their families to get ahead. Corporations enjoy limited liability, after all, precisely to encourage risk-taking. But while today we still have limited liability for American corporations, increasingly we have full liability for American families.

The reforms outlined in this Article are guided by an abiding spirit—the spirit of shared fate. Today, when our fates are too often joined in fear rather than hope and when our society too often seems riven by political and social divisions, it is hard to remember how much we all have in common when it comes to our economic hopes and values. Indeed, we are more linked than ever, because the Great Risk Shift has increasingly reached into the lives of all Americans. The ever-present risk of economic loss reminds us that, in a very real sense, we are all in this together. The Great Risk Shift is not "their" problem; it is our problem, and it is ours to fix.

[29] Jacob S. Hacker, The Divided Welfare State: The Battle Over Public and Private Social Benefits in the United States 7 (2002).