STITCHING A SAFETY NET

by W. Andrew Achenbaum

Last April, more than 3,000 members of the National Council on the Aging gathered in Washington to discuss "1984 and Beyond: Options for an Aging Society." They heard prideful accounts of the strides made in improving the elderly's quality of life—but also some worries that options for further advances were narrowing. "One fact stands unchallenged," observed Senator John Heinz (R.-Penn.), who chairs the Senate Special Committee on Aging. Unless health costs can be curbed, "neither older Americans nor the federal government itself will have the resources to address any other problem."

Heinz was hardly playing Chicken Little, for the danger is real. The cost of Medicare and other entitlement programs for the elderly has ballooned. In the span of a single generation—during the years between the passage of the Social Security Act of 1935 and Medicare's creation in 1965—Washington shouldered unprecedented responsibilities on behalf of the nation's old folks. By the late 1970s, the burden was becoming heavy, and calls for "reform" were widespread.

Throughout most of its history, America lacked an explicit old-age policy. During the colonial and ante-bellum periods, the elderly were expected to be independent and useful as long as they could. Septuagenarians served during the first quarter of the 19th century as chief wardens of the ports of Boston and Philadelphia. "When persons of mature age and eminent for their experience, wisdom, and virtue" are elected to Congress, Hezekiah Niles, editor and publisher of Philadelphia's *Niles National Register*, wrote in an 1820 editorial, "it is a subject for gratitude and congratulation."

To be sure, Americans have always been age-*conscious*, but their earliest concern was with the potential handicaps of youth, not of advanced years. Men had to be at least 21 to vote. States barred young men—but not old ones—from running for governor or the legislature. The Constitution set minimum ages for high elected office. Yet prior to the Civil War, there was no mandatory retirement in the private sector. Only seven states imposed any upper age limits on public service, and these were confined to a few judicial posts.

Americans were not, of course, oblivious to the vicissitudes of old age. As the 19th century wore on, they gradually discounted

The Gray Panthers, led by 79-year-old Margaret Kuhn, are just part of the powerful "Gray Lobby" that has blossomed since the 1950s. Some 30 organizations that speak for the elderly have offices in Washington, D.C.

the usefulness of older people. "The old man today. . . slow, hesitating, frequently half-blind and deaf, is sadly misplaced amid the death dealing machinery of a modern factory," wrote Burton J. Hendrick in a 1908 essay, "The Superannuated Man."

But even as times and attitudes changed, few Americans thought it necessary to rethink old notions of how to provide for the needy elderly. The family and the local community had been and remained their chief sources of assistance. Some states, building on a precedent embodied in the Elizabethan Poor Laws, made family members legally as well as morally responsible for their poor and infirm kin, but these measures varied widely. Not until the early 20th century did any states—among them, Colorado, Kentucky, and Ohio—make children's abuse of their aging parents a criminal offense.

If family members were not nearby or defaulted on their obligations the community typically intervened to help. Aged dependents sometimes received provisions at home or were boarded out at town expense. As Europeans had done for centuries, benevolent societies, religious organizations, and other groups built old-age homes for elderly members. Such facilities grew enormously after the Civil War, though even the best-endowed homes, such as Philadelphia's Indigent Widows' and Single Women's Society (founded in 1817) rarely housed more than 100 people during any given year. About three percent of the population over 60 took shelter in public almshouses, which increasingly became de facto old-age homes. Going "Over the Hill to the Poorhouse," as Will Carleton phrased it in an 1871 poem, was a dreadful and dreaded last resort for the old.

Soldiers Before Seniors

A "safety net" for the aged was put into place slowly, in piecemeal fashion, and for a variety of motives. After 1875, transportation companies such as the Baltimore and Ohio Railroad and American Express began to provide "retirement" pensions for older workers whom they wished to ease out. Unions, lodges, and fraternal orders built communal homes and took up collections for aged and disabled members. As the Progressive Era dawned, about two dozen states set up pensions for retired teachers. Bigger cities increasingly provided funds for retired police officers and firemen.

Yet, for the most part, the federal government remained aloof. Congress did feel a responsibility to veterans in their twilight years. As early as 1818, it had provided pensions to citizens who had served for at least nine months in the Continental Army during the Revolutionary War. There was a dramatic increase in veterans' coverage and costs throughout the 19th century as eligibility rules and benefits were liberalized. Washington paid out $174.2 million for veterans' pensions in 1913, accounting for 18 percent of the federal budget. (Today, 26 widows of Civil War veterans still collect benefits.)

But Congress was not yet prepared to follow the lead of Bismarck's Germany (1889) and Lloyd George's Britain (1908) in providing minimal old-age pensions for the population as a whole. Nor was there any interest in adopting compulsory sickness insur-

W. Andrew Achenbaum, 37, is an associate professor in the Applied History and Social Sciences Program at Carnegie-Mellon University, Pittsburgh. Born in Philadelphia, he received a B.A. from Amherst College (1968), an M.A. from the University of Pennsylvania (1970), and a Ph.D. from the University of Michigan (1976). His books include Old Age in the New Land *(1978) and* Shades of Gray *(1983). He is currently completing a history of Social Security for the Twentieth Century Fund.*

ance, as had occurred in Norway (1909), Britain (1911), Russia (1912), and the Netherlands (1913). When Victor Berger, a Socialist Congressman from Wisconsin, contended in 1911 that "the work of the soldier of industry is infinitely more necessary than the bloody work of the soldier" and that aged workers thus have "a claim on society that is even better than the claims of the soldier," his analogy was more striking than persuasive.

Nevertheless, pressure to do more for the aged increased after World War I, as awareness grew that old age itself was becoming a "social problem." Federal census data, social workers' reports, and special surveys demonstrated that growing numbers of older people needed assistance. "Mere hard work, frugality, and good habits" no longer protect people from poverty in old age, declared Abraham Epstein, research director of the Pennsylvania Commission on Old Age Pensions, in 1922. Epstein claimed that at least 40 percent of America's elderly population was indigent. Business groups, civic organizations, scholars, and "professional altruists" slowly took up the cause.

An 'Earned Right'

In response, many states wrote into law the family's responsibility to its aged members. Voluntary associations built more old-age homes. By 1930, 15 percent of all privately employed nonfarm workers (and 20 percent of all union members) were covered by pension programs. The federal government set up a retirement system for its 330,000 civil servants in 1920; nearly every municipality and most of the wealthier states did the same. Between 1920 and 1931, 18 states enacted relief plans for their neediest senior citizens.

Universal coverage, however, was not yet in sight. Most legislatures chose *not* to provide old-age assistance. The average benefit in states that did was worth less than $1 a day (about $2,350 a year today). And because employers often reserved the right to revise eligibility criteria or to discontinue paying benefits, even workers with pension rights could not always count on receiving their due. In a particularly egregious instance, annuitants of a Maryland railroad company saw their pensions revoked in 1922 when they refused to become scabs during a strike by the road's engineers and firemen.

While more and more Americans agreed that old age had become a considerable "problem," few believed that radical reforms were necessary. It was well known that Britain in 1925 had established a contributory pension plan for widows and orphans and that several Scandinavian nations were adopting

SOCIAL SECURITY'S CASH SQUEEZE

In 1977, President Jimmy Carter signed legislation gradually increasing the payroll tax levied on employees to support the Social Security system from just under six percent to just over 7.5 percent. This, he said, would "guarantee" the health of the strained pension program through the year 2030. He was mistaken.

Within three years, payments were exceeding the pension fund's income by up to $15 billion a year. In 1982, the fund had to borrow more than $17 billion from Social Security's medical care and disability funds to keep going. The Reagan administration and Congress resolved the crisis in 1983 by agreeing to the system's first benefit reductions and a speedup of payroll tax increases. This tax, now 6.7 percent for employees, is the largest tax of any kind that is paid by one-fourth of the 110 million workers in the system.

The crisis stemmed in part from Congress's 1972 decision to index benefits to inflation. During the Carter years, payments into the system lagged along with the soft economy. But inflation soared, triggering big cost-of-living adjustments—9.9 percent in 1980 alone. By 1982, the system was taking in nearly $190 billion a year, but paying out almost $200 billion, including $140 billion in pensions.

When Congress created Social Security in 1935, no one envisioned that it would come to account for nearly 21 percent of the federal budget. What the creators *did* have in mind is in dispute. Conservatives argue that pensions were meant to be small, to be supported by payroll taxes alone, and to serve as only one leg of a three-legged retirement plan, along with personal savings and private pensions. Liberals say that Social Security was meant to be the *primary* source of support for lower- and middle-income retirees, and that it *should* tap general tax revenues.

Once established, Social Security took on a life of its own, expanding in a series of incremental steps and occasional breakthroughs such as the addition of disability insurance in 1956 and Medicare in 1965. It is an "intergenerational transfer tax" that shifts money directly from workers to retirees. Pensions are not based on individual contributions, which are not recorded. Rather, they are based on individual career earnings. The average monthly payments are now about $650 for a couple, just under $400 for a single retiree, and about $350 for a survivor, usually a widow. Those who had high lifetime earnings get fatter checks (the current maximum: $703). But

health-care programs to meet the elderly's needs. But any dramatic departure from the status quo in America, many experts and legislators feared, might threaten everyone else's financial well-being. On the eve of the Great Depression, military pensions were still the primary source of government assistance to the aged. In 1929, about 80 percent of *all* money distributed through pensions came from this single source.

the system is skewed to provide "adequacy" for the poor. For more prosperous retirees, who presumably have other means of support, Social Security payments are proportionately low; the highest income groups receive about 27 percent of their top pre-retirement pay. The lowest get about 53 percent.

Social Security's basic problem is that it gives more than it receives. Including employer and employee contributions, 1982 retirees had an average of some $25,000 "invested" in the system. If they live 17 years after retirement—the national average—they will get back about $125,000, or five times their stake.

When the system began operating, in 1939, the payroll tax took one percent of a worker's pay, and the average monthly check was $22.60. Over the years, Congress has doubled the purchasing power of the average check. That was easy when the ratio of workers to retirees was high—and initially it was 9 to 1. But the surge in the ranks of retirees has slashed the ratio, now 3.3 to 1. At this level, pension increases must be accompanied by parallel boosts in the payroll tax, which is now scheduled to rise to 7.65 percent by 1990.

After 1990, taxes paid by the big Baby-Boom generation will keep the pension fund flush. But a new crisis looms when the Baby Boomers themselves begin to retire around 2010. Then the worker-retiree ratio may fall below 2 to 1. Partly because the Baby Boomers will have paid more taxes than their predecessors, their return on their Social Security investment may be only half as generous.

Some critics contend that if workers could "opt out" of the program, they could build a better retirement nest egg on their own. But that assumes they would invest 15 percent of their take-home pay (the amount of their own *and* their employer's Social Security taxes) year after year—a dubious assumption.

Given the faith that most Americans still retain in the system, no big changes are likely. Ronald Reagan once (in 1981) said that participation in it ought to be "voluntary," but he has not pursued the idea. The administration has conceded that the system is, as one White House aide has said, "as American as mom and apple pie. It might not be the best retirement program, but it's the one people know."

—Paul Light

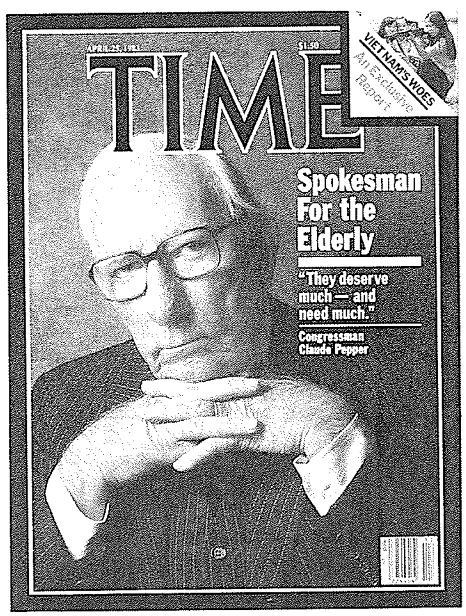
Paul Light is Director of Academy Research, National Academy of Public Administration. This essay is adapted from his book Artful Work: Building a Social Security Compromise, *© 1985 by Random House.*

The depression, wrote University of Chicago economist (and later U.S. Senator) Paul H. Douglas, "convinced the majority of the American people that individuals could not themselves provide adequately for their old age and that some sort of greater security should be provided by society." Unemployment among the elderly during the Great Depression exceeded the national average of 25 percent. Some 45 private pension plans, covering more than 100,000 employees, were abruptly discontinued; scores of other corporate programs deferred benefits indefinitely.

People demanded federal relief. Millions of older citizens rallied to support panaceas such as the Townsend Plan, which would have given all Americans over 60 a pension of $200 a month on the condition that they not work and spend the money within 30 days. Officials of the American Federation of Labor reversed their earlier stance and called for public protection against the hazards of unemployment, disability, and old age.

Finally, on August 14, 1935, after more than a year of serious deliberation and political wrangling, President Franklin D. Roosevelt signed the Social Security Act. "We can never insure 100 percent of the population against 100 percent of the hazards and vicissitudes of life," FDR declared, "but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age."

The act was a turning point in the evolution of a national old-age policy. A federal-state program of old-age assistance was established under Title I. A separate old-age insurance scheme was created under Title II to be financed by a one percent tax, paid by both an employee and his employer on the first $3,000 of a worker's covered earnings. (As a result, supporters of Social



Press portraits of the elderly, such as this 1983 cover story featuring 84-year-old Congressman Claude Pepper (D.-Fla.), typically dwell on the needs of the elderly but rarely examine how much they now have.

Security claimed that program benefits were an "earned right," not a dole.) An unemployment insurance program was also created (Title III), as were provisions for dependent mothers and children (Title IV), the blind (Title X), and public-health services (Title V and VI).

American policy-makers viewed Social Security as an experiment. They knew they needed time to clarify details and to let Americans get used to the idea of social insurance. So the program began modestly—only 222,000 Americans received benefits under Title II in December 1940.

New Directions

After the war, Social Security expanded gradually. In 1950, farmers, domestic workers, and civilian employees not covered by the Federal Civil Service Retirement System were brought into the Title II pension program. By 1960, participation had become compulsory for self-employed professionals and military personnel, and voluntary for clergy, state-government employees, and people who worked in nonprofit organizations; that year, nearly 15 million Americans received Title II benefits. Meanwhile, Congress acted periodically—in 1950, 1952, 1954, and 1959—to make payments more generous. Disability coverage was added. When John F. Kennedy took office in 1961, these social-insurance expenditures were the largest single item in the federal domestic budget. They have been so ever since.

Amid postwar affluence, the number of Americans participating in private-sector pension plans also began to rise, to more than 20 million in 1960. But Social Security remained the essential—and often the sole—means of support for a growing percentage of the elderly.

Despite all this, a large segment of the population remained (or became) poor late in life. University of Michigan researchers estimated that, during the late 1950s, 48 percent of all families headed by an elderly person were potential welfare recipients (versus 28 percent of U.S. families generally). Social Security officials reported that almost one-third of the aged were living on inadequate incomes. "Fear of illness and lack of sufficient money," declared Anthony J. Celebrezze, the Secretary of Health, Education and Welfare, in 1963, "are uppermost in the long list of worries" of most older Americans.

Federal programs for the elderly took two new directions during the 1960s as President Lyndon B. Johnson set about creating his Great Society. On the one hand, Washington committed itself to doing more. Social Security beneficiaries be-

ELDERCARE: HOW AMERICA RANKS

Compared with those in other Western countries, America's programs for the aged have tended to be narrow in scope. Highlights:

Money. In America, Social Security pension payments—the main support of more than half the aged—account for 21 percent of federal spending and nearly nine percent of the gross national product (GNP). Elsewhere, the share of GNP devoted to comparable programs is higher: 12.9 percent in West Germany, 14.4 percent in Britain, 16.4 percent in Italy. Yet in terms of its "replacement rate"— the proportion of pre-retirement income provided—Social Security is not ungenerous. For the average retired U.S. couple, the rate in 1980 was 66 percent—under France's 75 percent and Sweden's 83 percent, but above Britain's 47 percent and Canada's or West Germany's 49 percent.

Health care. Most countries help the aged through national health programs—the "socialized medicine" of Britain and Italy, or the employer-employee–financed insurance programs common elsewhere. Sweden's plan, for instance, pays all but a fraction of the bills for doctors, hospitals, and medicine. In America, two-thirds of the elderly's health costs are paid by government programs. Medicare typically pays 44 percent of a senior citizen's medical bills. It is, however, aimed mainly at care of "acute" problems in hospitals: It will help with a heart by-pass, yet it will not assist those who need outpatient care for a chronic ailment such as arthritis. Soaring medical costs, meanwhile, continue to push up out-of-pocket health expenses.

Long-term aid. Institutionalization is more common in some other countries than in America, but only the United States and Canada make wide use of private nursing homes. In Europe, such places are usually run by the government or by nonprofit agencies. Some countries—notably Denmark, Norway, Sweden, and West Germany—offer incentives to families who board aged relatives. Subsidized home-care services are more available in Europe than in America.

As many as 20 percent of the 1,250,000 aged Americans who are institutionalized could be tended at home at lower cost if there were programs to support such care. Nursing-home fees, which have been rising by 18 to 20 percent annually and are the fastest-growing health-care cost, may now run above $20,000 a year.

Housing. Direct federal involvement in shelter is small in America, but most European governments play a big role. Many subsidize "sheltered housing" offering the aged independent living with common facilities such as dining areas.

But then, American taxes, all told, are relatively low. In 1982, they amounted to 31 percent of the gross domestic product (GNP minus foreign-trade income). That ranked America 17th on a list of 23 countries—ahead of Japan (27 percent) and Switzerland (30 percent), but behind Britain, West Germany (both 37 percent), France (43 percent), and top-of-the-chart Sweden (51 percent).

came eligible for hospital insurance under Medicare, while Medicaid provided care to eligible poor people of all ages. Under the Older Americans Act of 1965, Congress established an Administration on Aging; authorized funds for community planning, special services, and volunteer programs for the elderly; and provided grants to states for other initiatives. By the end of the 1970s, 21 federal departments and agencies administered more than 100 programs that "entitled" older people to subsidized housing, Meals on Wheels, kidney dialysis, and much else.

At the same time, programs to assist the elderly generally were viewed in Washington as distinct from—and tangential to—mainstream antipoverty programs. Such Great Society legislation as the Economic Opportunity Act often excluded the old from participation, thereby confounding efforts to help the elderly help themselves.

By accentuating the *distinctiveness* of the elderly's needs, public officials were able to define "the problem of old age" as a legitimate issue. But they failed to advance a consistent set of objectives. Obvious contradictions were often ignored. For example, the Age Discrimination in Employment Act of 1967 underscored the sensitivity in Congress to the problems that workers over 40 experienced in finding and retaining jobs. Yet this same act did not help people over 65—an exclusion not corrected until 1978, when protection from job discrimination was extended to age 70. Nevertheless, the material well-being of the typical older person improved during the 1960s and 1970s. The proportion of the elderly with incomes below the official poverty line is now roughly in line with that of the overall population. And yet, America's recent success in dealing with the problems of the aged as a group may have obscured some of the challenges that remain.

'Busting the Budget'

For one thing, the rising tide has not lifted all boats. There remain areas of high poverty among the elderly. More than one-third of all aged women living alone are poor. Being old, black, and female involves a triple jeopardy: 42 percent of this group is poor. How best to help such people, or to reduce their number in the future, is hard to say, since their plight may be due as much to gender and racial discrimination as it is to their age. Does the fact that most poor older people are female make old-age poverty essentially a women's issue?

Another area where we have fallen short involves health care. Medicare and Medicaid, which together cost the U.S. taxpayer some $130 billion in 1983, fail to provide a coherent medical package for the aged and the poor. These programs were designed to deal with acute illnesses and to employ the latest technology, and as a result, the federal government pays out enormous sums for kidney dialysis and other sophisticated forms of treatment.

Many have benefited. But should such programs be the centerpiece of a health-care system for the elderly? Do they really address the chronic, degenerative maladies that are the most common health problems that older people face? Unlike other industrial nations, the United States provides few incentives for delivering in-home health care, setting up day-care centers, or promoting preventive medicine at *any* stage of life. We could do better.

And, of course, there is the simple matter of money. Between 1969 and 1980, the cost of Social Security, veterans' payments, and other programs—many of them indexed to inflation—that aid the elderly rose from 19 percent to 27 percent of all federal spending. Liberals and conservatives alike (though for different reasons) worry about maintaining programs for an aged population that is rapidly increasing. The *National Journal*'s Robert J. Samuelson asserted in 1978 that subsidies for old people were "busting the U.S. budget." Clearly, the elderly cannot be made into scapegoats, but just as clearly, the nation can ill afford more of the same.

And yet, the prospects for a major overhaul of America's jerrybuilt "old-age policy" are slim. Much as taxpayers groan about supporting the elderly in the manner that has become customary, the fondness for independent living and "free" social services—among both younger and older Americans—is by now deeply ingrained. Few people of any age seriously argue for radical alternatives to federal support for the elderly. In any case, as the 1983 Social Security pension fund "bailout" showed, the current political realities demand bipartisan efforts to keep the system solvent and maintain public confidence. Fifty years of faith binds the United States to the belief that, in the words of Senator Bill Bradley (D.-N.J.), "Social Security is the best expression of community we have in the country today."