

**Veto Player or Agent of Reform? Congress and the Politics of  
Social Security and Medicare**

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It is widely acknowledged that the Social Security and Medicare program will face significant financial challenges in the years ahead. Observers on the left and the right may disagree on the magnitude of the problem or how to respond to it, but few deny that the aging of the population will increase spending on Medicare and Social Security while decreasing the size of the population that pays taxes to support these entitlements. The result will be strains on the federal budget as the erosion of Social Security surpluses increases the size of the budget deficit and Medicare eats up a higher share of federal spending. How then will we deal with these challenges? Do we have a political system that is capable of responding to these problems? What kinds of reforms are most likely to be achieved?

This paper examines these questions through the lens of Congressional politics. The United States is distinctive in the powerful role of Congress in our political system, yet observers have commonly viewed this as a key source of policy-making inertia. The separation of powers between the executive and legislative branches creates numerous obstacles to controversial legislation, while the complex and fragmented decision-making process within the Congress adds additional hurdles. In addition, the permeability of Congress to constituent and interest group influence makes it difficult to push through either significant expansions or reductions in the welfare state. This has led many to predict stasis on federal entitlements, and there is considerable evidence to support this view. Efforts to institute a system of private accounts in the Social Security program have failed, as has the drive to turn Medicare into a system of competing private insurance plans. Bold cuts in both programs have been similarly unsuccessful and generated the predicted political backlashes against their advocates.

At the same time, however, there has been some movement in the politics around federal entitlement programs and Congress has played a critical role in this shift. Institutional changes have strengthened and centralized congressional decision-making, particularly in the House, and enabled a more coherent approach towards federal budgeting. At times, this has stiffened the backbone of Congress against powerful health care interests and enabled cuts in spending on Medicare reimbursements. In addition, the role of the congressional party leadership has grown with regard to agenda-setting and legislative development. One consequence has been increasing activism on federal entitlements, as both parties have developed sharply differing views on whether and how to reform these programs, and the party leadership has become more capable at enacting some of these visions. This has made bipartisan collaboration on entitlement policy more difficult, but highly-charged partisan initiatives on entitlements more likely. A key example was the 2003 Medicare Modernization Act, which not only expanded Medicare by adding a prescription drug benefit to it, but also increased the role of private market actors in the program. Although not the full-fledged transformation of Medicare into a competitive, market-based system, it did represent a significant change in the working of the program and was largely a partisan, Republican initiative.

In short, the forecast for the future of Medicare and Social Security is not for dramatic reform to take place any time soon, but rather for a series of incremental but potentially important measures to be adopted in the years ahead. The shape of those measures will of course depend on which party has majority control of Congress and the White House, with Democrats attempting to shore up the financial well-being of Social Security and Medicare in their current form, and Republicans seeking to inject competitive market principles in the two programs. If the current trend towards political polarization continues, we can expect continued gridlock around entitlements under conditions of divided control of government, but increased policy activism in the event of unified control, even if congressional majorities are slim.

### **Congress as a Social Policy Actor**

One of the most distinctive aspects of the American social policy-making process is the dominant role of Congress. Although this may seem an obvious and trivial point to American policy-makers and US-oriented observers, the power of Congress in social policy is cross-nationally unique. In most Western countries, parliaments have become rubber stamps that generally accede to that which is put before them by prime ministers and their governments. In the US, by contrast, the system of checks and balances necessitates an independent and powerful Congress. Committees and individual members of Congress have large staffs and access to research institutions (e.g. GAO, CBO, Congressional Research Service) that provide members with information that they can use not only to scrutinize executive branch activities but also to draft their own legislation. In most other countries, public policies are devised within government ministries of the executive branch. A critical source of congressional influence lies in its power over revenue and spending decisions, implying a particularly active role in redistributive policy.

One consequence of having such a powerful Congress is that it serves to impede rapid or dramatic change. The American policy-making process is littered with veto points but many of them lie within the Congress. A bill often needs to survive votes in both House and Senate subcommittees, garner a majority in both the House and Senate (and possibly a supermajority in the Senate), survive a conference committee between the two chambers, and then receive the president's assent. Further reinforcing the status quo bias of the American system is the fact that Congress is a majoritarian institution that consists of 535 people acutely focused on their own reelection (Arnold 1998). The House is especially sensitive to the electoral consequences of congressional decisions, given that all House seats are up for reelection every two years. Despite the well-known incumbency advantage, stories abound of secure members of Congress going out on a limb and then being promptly removed in the next election (e.g. Ways and Means Chairman Al Ullman's championing of a Value Added Tax). Members especially worry about decisions that have negative consequences for interest groups or the general public and that can be easily traced back to House or Senate votes (Arnold 1990).

An additional factor making change difficult is the fact of interest group pluralism that follows from the American institutional set-up. In many western nations, the creation and management of social programs is achieved through negotiation between a

small number of individuals in the executive branch and representatives of affected interests – namely, business and labor, but also health care providers and insurers in the case of health care policy. These “corporatist” negotiations often take place behind closed doors, which both limits the number of interlocutors and offers a relatively insulated space for potentially sensitive decisions to be made. In the US, by contrast, the independent power of Congress and its decentralization offer access points to any interest group with enough money or a loud enough voice to be heard (Wilson 1982). Rather than agglomerate into a small number of organizations that can speak on behalf of entire sectors, the American political system is littered with thousands of interest organizations, and their numbers have exploded over the past decades (Heaney 2004). The interest-group free-for-all that follows makes it especially challenging to negotiate over sensitive issues and spread costs across groups. This makes it not only difficult to create new programs, but once programs are in place they tend to spawn supportive interest organizations, making it hard to make changes or cuts later on.

In short, the American system is designed to thwart large-scale change unless there is a wide degree of consensus. Such agreement is particularly difficult to attain in the arena of redistributive policy, which by definition involves taking from some and giving to others and is thus likely to arouse the ire of those who stand to lose more than they might gain. Numerous scholars have argued that this is one reason why the American welfare state is considerably smaller than that of other western nations (Steinmo 1994; Alesina and Glaeser 2005), but it also implies great difficulties in cutting the programs that do manage to make it through the legislative gantlet (Weaver 1986; Pierson 1996).

How then does change take place in the American welfare state? One argument holds that change comes about only when some of the veto points in the American system are overcome. The creation of large redistributive programs took place during two “big bangs” of policy innovation in the 1930s and 1960s (Leman 1977). Notably, this was a time of decline in the power of Congress vis-à-vis the executive branch (Sundquist 1981), and policy initiatives in both eras largely emerged out of the executive branch. As Sundquist (1981) has argued, the inability of Congress to plan or act quickly left a void to be filled in a time of crisis – a void that the executive branch amply filled. Even so, the assent of Congress was still needed, and the fact that Democrats controlled the White House and had a large majority in Congress was also essential for both the New Deal and Great Society measures to pass (Marmor 2000).

A good deal of social policy-making has occurred outside of these big bangs of innovation, however, and so an excessive focus on these few times of extraordinary activity can be deceptive (Howard 2007). The US is internationally distinctive not only for its relatively small direct welfare state, but also for its large “hidden” welfare state of tax expenditures and regulatory decisions that have encouraged diverse forms of private welfare provision (Howard 1997; Hacker 2002). In part, these decisions reflect a “backdoor” approach to social problems. For example, barring the ability to legislate direct social spending, legislators have often turned to the tax code as an easier way to achieve their objectives. The American political system is also uniquely suited to these

more “subterranean” forms of policy-making (Hacker 2004). With its labyrinthine decision-making process, there are numerous channels through which decisions can be made. Moreover, some minor or incremental reforms may appear deceptively small at the start but can sometimes have significant consequences down the road (Hacker 2004).<sup>1</sup>

Another reason why Congress should be viewed as more than a set of veto points is that both institutional and political developments since the 1970s have increased its policy-making capabilities. On the institutional side, a series of reforms have augmented the role of the legislative branch in social policy-making. The Budget and Impoundment Control Act of 1974 created budget committees and the Congressional Budget Office (CBO), giving Congress independent budgeting capabilities. The capacity of House and Senate party leaders to devise and push through legislation also has been enhanced by reforms to the operation of Congress since the 1970s. Many of these reforms took power away from the previously-dominant Committee chairmen, such as their ability to determine committee seats, control subcommittees, and more generally to set the legislative agenda, and transferred it to the party leadership (Sundquist 1981; Rohde 1991; Sinclair 1995). Although many observers expected that these reforms would fragment congressional decision-making and thus further weaken its capacity for independent action, arguably the reverse has occurred as party leaders in first the House and then the Senate gained greater powers over the legislative process (Rohde 1991). This has enabled the leadership not only to broker agreements between committees and within the party caucuses and committees on legislation, but also to set the party’s overall policy agenda (Sinclair 1995).

The congressional reforms both reflected and were amplified by a larger trend in American politics: the increased ideological homogeneity of the two parties and growing distance between them. Since the 1970s, the shift of southern Democratic voters to the Republican Party, and the decline of liberal Republicans in the Northeast and Midwest, has created more uniformity within the two parties on many policy issues (Stonecash 2000). While there is debate as to the root cause of the phenomenon of political polarization, a number of scholars trace it to the fact that each party’s constituency is increasingly uniform in their socio-economic background and ideological tendencies (Stonecash, Brewer and Mariani 2002). This has shaped the kinds of people getting elected and the agendas they bring with them to Washington. As party members have become more similar in their policy goals, they have become more willing to delegate policy-making powers to the leadership in the hope that they can muster the votes around legislation that meets both electoral and programmatic objectives (Sinclair 1995; Rohde 1991). This not only shaped reforms to the working of Congress and the parties in the 1970s and 1980s, but also led members to grant increasing latitude to the party leadership.

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<sup>1</sup> A good example would be the 1974 Employee Retirement Income Security Act (ERISA), which made all employer-sponsored health and pension plans exempt from state laws regarding employee benefits. This led more and more employers to self-insure in their health plans rather than participating in larger risk-pooling plans, like Blue Cross/Blue Shield. The latter plans therefore became more expensive while employers gained considerable power over what they cover in their health plans. The measure was little-noticed at the time of its adoption. See Hacker (2002) for a full discussion.

We might expect that these institutional and political changes have made redistributive policy-making even more difficult than it was in the past. Not only has the gap between the two parties on federal entitlements grown, but the party leadership in Congress is increasingly capable of holding its members together around opposing stances. This should diminish the likelihood of bipartisan collaboration, and indeed, bipartisanship in Congressional voting has been on the wane. In times of divided government, gridlock should be likely given the difficulty of peeling off enough legislators from the other party to build a large enough majority around a particular proposal (Binder 2003). The consequence for entitlement policy could therefore be policy drift (Hacker 2004), in which new problems are unaddressed and old ones are left to fester.

At the same time, however, the “resurgence” of Congress and the growing strength of the party leadership may have increased the capacity of Congress for social policy reforms. If unified in their objectives, perhaps Congress is now better equipped to withstand the pressures of organized interests. And party leaders may be better able to craft legislation and maneuver it through the legislative process. Our expectation is thus that in times of divided government, it will be increasingly difficult to enact reforms to Social Security and Medicare, but that in times of uniform party control – even with relatively slender majorities – such reforms have become more likely than in the past.

To sum up, in evaluating the implications of Congress for the politics of social policy, many scholars have focused on its role as a veto player in a fragmented and permeable political system. In addition to the many institutional hurdles facing any piece of legislation, Congress provides many access points to groups that seek to either block new programs from coming into place, or simply to preserve/increase their own benefits, thereby crowding out new programs. At the same time, however, both institutional changes to augment the power and independence of Congress, and the strengthening of congressional political parties, have potentially increased the ability of Congress to be an active agent of reform.

What does this state of affairs imply for the politics of our two largest federal entitlement programs, Social Security and Medicare?

### **Congress and the Politics of Social Security and Medicare**

It is easiest to discuss first what has not happened – major cutbacks, tax increases, and/or fundamental reform – because this is what we would expect in a political system that is biased towards preserving the status quo. Of course, such reforms would be difficult in any political system, as broad-based social programs generate large and supportive constituencies that will oppose major cuts in their benefits (Pierson 1996; Campbell 2003). Currently, nearly one-quarter of all American families receive some income from Social Security – be it from the pension itself, survivor benefits, or disability payments – and Social Security payments are the dominant source of income for most senior citizens (Lavery 2008). Medicare not only covers health care costs for 44 million seniors and disabled people, but is a major source of income for politically influential groups such as hospitals, doctors, medical equipment suppliers, and now the pharmaceutical industry

(Vladeck 1999). As every state and congressional district is full of people and industries that benefit from Social Security and Medicare in some way, legislators are likely to tread cautiously around these “third-rail” programs (Arnold 1998).

Where reforms to popular social programs have been achieved, they have been done in more centralized and corporatist political systems that employ back channel negotiations to arrive at difficult compromises. In Sweden, for instance, behind-the-scenes negotiations enabled the enactment of short-term cuts in pension benefits and a structural reform in the late 1990s that instituted a system of private accounts within the main pension system.<sup>2</sup> (An alternative route to reform is the Chilean approach of the 1980s, in which a dictatorship imposed pension privatization upon the public.) In the permeable and pluralist American system, imminent crises have been needed to force action on entitlement programs, but even then stop-gap measures are more likely to be adopted than broad-based reform.

The response to the 1983 Social Security crisis is a case in point. The crisis became apparent as early as 1980, when economic decline coupled with high inflation generated both higher benefits payments and lower payroll tax revenues. Still, conflict between the Republican White House and Democrats in Congress produced deadlock until both sides faced the prospect of benefit checks not being mailed. Even then, agreement could only be reached behind closed doors, which enabled a “Gang of Nine” to secretly negotiate an agreement on how to allocate the pain (Light 1995). There was little discussion of broad-based reform, however, but instead a package of revenue increases and benefit cuts that restored the trust fund to balance and thus averted the immediate crisis. Long-term imbalances in the program were not addressed.

Lacking a major crisis, reforms to address imbalances in the Social Security program face a steep uphill climb. Advocating major, direct cuts in either Social Security or Medicare has, thus far, been politically treacherous. Reagan discovered this in 1981 when his administration proposed dealing with trust fund imbalances by enacting measures that would reduce benefits for nearly 65 million people (Light 1995, 114-5).<sup>3</sup> Congressional democrats had a field day assailing the proposal, forcing the administration to beat a hasty retreat. Similarly, Republicans proposals in 1995 for major cuts in Medicare had the effect of unifying President Clinton and the Democrats in Congress, generating a political backlash against Republicans (Oberlander 2003). Tax increases have not fared much better. The long-term deficit in the Social Security program could be eliminated by instituting a 1.7 percentage point increase in the Social Security tax (Lavery 2008). Yet, after slowing rising for decades, the Social Security payroll tax has not increased since a previously-scheduled increase came into effect in

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<sup>2</sup> The agreement was negotiated by a small number of representatives of the main political parties and with the tacit assent of the powerful trade union confederation, the LO (Schludi 2005). For a variety of reasons, all sought to keep the issue out of the electoral arena, preferring instead to work together to achieve a sustainable future of the generous Swedish pension system.

<sup>3</sup> The proposal included cutting benefits for early retirees, reducing the regular benefit, and delaying the cost-of-living adjustment.

1990, and there have been no legislated increases in the tax since 1983 (Campbell and Morgan 2005).<sup>4</sup>

Efforts to more fundamentally alter the two programs have similarly come to naught. For example, the Bush administration's 2005 drive to incorporate a system of private accounts into Social Security died a quick death, as congressional Democrats dug in their heels against the proposal. The measure faced not only the threat of a Democratic-led filibuster in the Senate but also waning support from some skittish Republicans fearful of electoral retribution. A core challenge for reformers is that the problems facing Social Security appear distant, but reform cannot be achieved without imposing costs on current or future beneficiaries. Although many younger Americans are skeptical that there will be money to pay their Social Security benefits and thus potentially supportive of a system of private accounts, retirement is part of the distant future for these people. There also is no imminent need for action on the Social Security trust fund: the latest report of the program's Trustees found that the fund's surplus will begin to decline in 2017 but will not be exhausted until 2041. Although it would be responsible and financially wise to address this problem now, 2041 is a long way off for most people. It should also be noted that recent declines in the stock market make it that much harder for advocates of private accounts to convince the American public of their merits. Barabas (2006) has shown that support for various forms of Social Security privatization rise and fall with the stock market, as downturns remind people of the risks of investing in private markets.

In short, very much as expected, the Congress frequently has been a conduit for opposition to any major changes in federal entitlement programs. At the same time, however, some of the changes described earlier in the working of Congress and the larger context of American politics have begun to shift the landscape of federal entitlement politics in significant ways. First, with its increased capacity for budgeting and overall planning, Congress has taken an increasingly assertive role in containing the cost of entitlement programs such as Medicare, even if that means standing firm against the pressure of important constituent groups such as hospitals and doctors. Legislators began experimenting with mechanisms for evaluating the necessity of hospital care in the 1970s in an effort to control rising Medicare spending. With the failure of those softer measures, Congress in the 1980s adopted a prospective payment system that establishes in advance what hospitals are to be paid for providing care. By the late 1980s, a similar measure was developed to contain spending on physician services. Both would effectively squeeze provider reimbursements, creating considerable discontent among provider groups (Mayes and Berenson 2006). Yet, as Oberlander (2003) has noted, there was sufficient agreement around the need to contain Medicare spending that this helped diminish the politicization of these measures and enabled Congress to hold firm against vocal and often influential interest groups.

The development of a congressional budgeting process also had the effect of augmenting and centralizing power within the Congress, and has thus been critical in

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<sup>4</sup> The Medicare tax rate also has not increased since 1990, although the ceiling on the amount of income on which the tax is assessed was raised in 1993.



enabling Congress to make cuts to the Medicare program. The Congressional Budget Office (CBO) is a vital source of independent information about program costs, spending projections, and the budgetary consequences of legislative proposals. In addition, budget reconciliation emerged in the 1980s and 1990s as a crucial tool for mobilizing the will to make cuts in entitlement programs (Smith 2002). As reconciliation bills are considered under expedited procedures in both the House and Senate, they also can help enforce the overall priorities established in annual budget resolutions. In the mid-1990s, House Republicans under the leadership of Speaker Gingrich used the budget resolution and reconciliation to push for tight limits on Medicare spending. Although the 1995 measure was vetoed by President Clinton and generated much political fallout for the Republicans, they used the same procedures in 1997 to push through a more tempered but still significant package of Medicare cuts (Smith 2002).

The growing power of the party leadership in the House and Senate also has led it to shape entitlement policy to meet the party's programmatic and electoral objectives. This was apparent in the late 1980s, when Democratic House Speaker Jim Wright got involved early on in the process of developing the Medicare Catastrophic Coverage Act (MCCA) that expanded Medicare to cover high health care costs. Wright was critical in working out differences between the versions developed in the two committees with jurisdiction over Medicare (Energy and Commerce and Ways and Means), thereby enabling the House to put forth a unified stance vis-à-vis the Reagan administration. He also pushed for the inclusion of a measure he valued – coverage for prescription drugs, which seniors generally had to pay for by themselves without assistance from the Medicare program (Sinclair 1995). Ultimately, this intervention did not work to the advantage of the MCCA, as the prescription drug benefit significantly augmented the cost of the legislation. Legislators decided to make seniors pay the full cost of the new benefits rather than increasing payroll taxes on existing workers and this prompted a fierce backlash against the MCCA when the full costs became apparent. Within a year of its passage, Congress revoked the MCCA (Himelfarb 1995). Even so, the episode was revealing of the growing role played by the party leadership in the development of social policy.

Newt Gingrich brought an even more activist, and combative, style to the position of House speaker in the 1990s, and he used this position to develop and push through a legislative agenda that included significant changes to Medicare. The Republican leadership came into office convinced that the 1994 election represented a repudiation of the Clinton administration's health care reform effort and determined to show that they could enact an alternative vision of social policy. To enable this, the party agreed to changes in congressional procedures that centralized power in the hands of the leadership. Gingrich then was heavily involved in the crafting of the 1995 Balanced Budget Act, which included major cuts to both Medicare and Medicaid. As was noted earlier, the measure failed to get past a presidential veto, and the 1997 package of cuts that did finally pass was devised through more conventional committee channels (Smith 2002; Oberlander 2003). Nonetheless, Gingrich showed how the strengthened leadership in the House was capable of devising an overall agenda for the party and then pushing that agenda through the legislative process.

The role of the party leadership in the crafting and passage of legislation also was very much on display in the 2003 Medicare Modernization Act (MMA), which added a prescription drug benefit to Medicare and increased the role of private insurance plans in providing all Medicare benefits (Sinclair 2005). The question of whether to add a prescription drug benefit to the Medicare program became a hot electoral issue in the late 1990s, as both President Clinton and congressional Democrats began assailing the GOP for their inaction on this issue. This convinced the House Republican leadership that they needed a meaningful proposal that would help Republicans blunt these attacks in their electoral campaigns. Speaker Dennis Hastert thus made the prescription drug benefit a priority and oversaw the development of House legislation in 2000 that established the template for the bill that would ultimately pass in 2003. Although many commentators have described the MMA as the brainchild of President Bush and Karl Rove, the administration actually played a fairly marginal role in the development of the measure. Bush came to advocate a Medicare prescription drug benefit during the 2000 presidential race, but only after being thoroughly hammered by Al Gore in battleground states such as Florida. And by the time he began favoring such a reform, House Republicans had already developed and introduced prescription drug legislation. In fact, during consideration of the Medicare bill between 2001 and 2003, the House disregarded White House proposals for the new benefit on several occasions. The main role the administration played was as an agenda-setter and supporter of the effort that House and Senate republicans were making to enact this reform.<sup>5</sup>

In 2003, the mid-term electoral victories in the House and Senate seemed to open up a legislative window of opportunity for the Medicare bill, and Hastert again played a vital role shepherding the legislation through. The Speaker again oversaw the crafting of the legislation and then worked with his counterpart in the Senate, Majority Leader Bill Frist, to build sufficient support for the bill. The crucial problem they faced lay in the Republicans' lack of a filibuster-proof majority in the Senate. This meant that they needed a bill that was moderate enough to pull in sufficient Democratic and moderate Republican support, but conservative enough to be acceptable to House Republicans. To put pressure on Senate Democrats and moderate Republicans to support the legislation, the House and Senate Republican leaders opened up secret negotiations with the AARP on the outlines of an acceptable drug benefit (Serafini and Vaida 2004). These negotiations would later pay off when the AARP decided to endorse the legislation and run a \$7 million advertising campaign to promote it.

The leadership also was heavily involved in the conference committee that sought to reconcile the House and Senate bills. It used to be that conference committees were dominated by key figures from the House and Senate committees with jurisdiction. Now, the leadership appointed themselves to the committee, with Hastert, DeLay, and Frist all

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<sup>5</sup> For instance, the White House championed unpopular ideas such as providing only means-tested assistance to low-income seniors for their drug costs, or requiring seniors to join a private insurance plan that provided all their Medicare benefits (e.g. an HMO) in order to receive the benefit. For those involved in developing this legislation in the House and Senate, such ideas were dead on arrival. Congressional Republicans also were determined to spend far more on the legislation than the Bush administration initially proposed.

participating in the conference deliberations. They were critical in maneuvering around the thorniest issue – how to structure provisions that would increase the role of private plans in providing Medicare benefits. Conservatives wanted Medicare to compete with private plans for the business of beneficiaries and they had had an important champion in the figure of Bill Thomas, chairman of the House Ways and Means Committee (Carey 2003a). At the same time, moderate Democrat Max Baucus, who was also on the committee, signaled that including this provision would mean it would never pass the Senate. The determination of both sides on this point created a deadlock on the conference committee, leading many to fear that the MMA would fail yet again.

Ultimately, the Republican leadership overruled Thomas. The crucial moment came when Hastert, DeLay, and Frist took control of the conference committee from its leaders, Thomas and Grassley, and worked out a compromise agreement with moderate Senate Democrats Breaux and Baucus. The AARP was also part of the negotiations and agreed to the final measure. The agreement turned the private plan competition measure into a demonstration project rather than requiring Medicare to compete directly with private plans.<sup>6</sup> Such direct involvement of the political leadership on a conference committee was unusual and Thomas was furious to find he had been outmaneuvered. Ultimately, he swallowed his anger and agreed to vote for the bill.

Once the compromise had been reached, the leadership had to muscle the bill through a contentious House. The situation in the Senate was somewhat less precarious: the MMA passed 55 to 44 with only a handful of Democratic backers, but the support of the AARP made Democrats reluctant to try filibustering the bill. In the House, the Republican leadership could count on only a handful of Democratic supporters and had to hold onto as many Republicans as they could to eke out a majority. At one point, Democrats had an absolute majority of votes against the bill, but the House leadership kept the vote open for several more hours while they and Bush administration officials tried to persuade enough Republicans to switch their nay vote to a yea. This was the longest electronic vote tally – two hours and 53 minutes – since the use of electronic voting, and Republican leaders almost literally had to twist arms to get enough Republicans to support the bill (Martinez 2003). One Republican congresswoman hid behind a banister on the Democratic side of the House, hoping not to be found, while others turned off their cell phones or stood in a large group that could fend off attempts by the leadership to pick off vulnerable individuals (Koszczuk and Allen 2003). At 5:51 in the morning, the MMA eked its way to passage, 220-215, with 25 Republicans voting against, and 16 Democrats voting in favor.

In all of the above three examples, we can see how an activist leadership in the House and increasingly the Senate have led on reforming federal entitlements, in this case the Medicare program. The direction of change – expansion, reduction, and/or market-based reforms – has depended on the issue at hand and which party is in power, but one overall trend has been towards a sharper division between the two parties on the future of these programs. Stronger party leadership has very much contributed to these divisions.

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<sup>6</sup> It is widely believed that this demonstration project will never happen and was a largely toothless face-saving, measure.

As was noted earlier, the empowerment of the party leadership has in part been a *product* of increasing programmatic differences between the two parties, and intensifying electoral competition between them given tight margins of party control in both the House and Senate. Some have traced the widening gap between the two parties to changes in the electorate – namely, the growing socio-economic homogeneity of each party’s voting base. As others have pointed out, however, the leadership of the two parties in Congress also has *contributed* to the polarization of politics in Congress by adopting opposing, inflexible stances (Dodd and Oppenheimer 2005). The behavior of the parties and their leaders in Congress has therefore reinforced larger electoral trends.

Since the 1990s, entitlement policy has become a major site for these conflicts. During the Reagan administration, debates about entitlements were largely about how much to cut from these programs, with little discussion of fundamental reform. In the case of Medicare, budget deficits helped bring congressional Democrats and Republicans together around a policy of containment – of cutting provider payments in order to limit the growth of the program. This “negative consensus” (Oberlander 2003) did not challenge the basic principles of the program, but merely sought to limit its impact on the federal budget. The same was true with Social Security, as there were few discussions in the 1980s of instituting private accounts. As Paul Light (1998) has put it with regard to the trust fund crisis, “(i)n 1983, the privatizers were dismissed as crackpots.”

However, since the 1990s, the basic principles underlying the two programs have been challenged, as Republicans appear increasingly willing to touch the alleged “third rail” of politics. During consideration of President Bush’s private accounts proposal, many Republicans in Congress embraced the idea although others shied away from it for fear of electoral retribution. And while some believe the unpopularity of Social Security reform contributed to declining approval rates for the Bush presidency, this did not stop several Republican presidential candidates in 2007-08 from advocating various models of private accounts during the primary race. Similarly, since the mid-1990s, there has been what Oberlander (2003, p. 160) describes as a “high-profile, partisan, and ideological debate over first principles” with regard to the Medicare program.

Although achieving such reforms still remains difficult, these debates have helped shift the discourse around entitlement programs in meaningful ways. The idea of carving out a portion of payroll taxes and diverting them into private investment accounts may be moribund, but there is growing support for adding private accounts onto the existing system through incentives for private saving. Shoring up the system of private retirement security in this way may, in the long-run, make reductions in the Social Security program more palatable. Similarly, the effort to turn Medicare into a system of private insurance plans has failed, but smaller market-based reforms may gradually bring the program closer to that vision later on. Medicare beneficiaries now must join a private insurance plan to receive their drug benefit, and a growing number have joined these plans to receive all of their health coverage as well. As seniors become more comfortable with these plans, they may be more amenable to transforming the program into one of competing private plans. At least some conservatives have publicly stated that this was

the objective behind the MMA: to incrementally move the public towards accepting a market logic in the Medicare program (Medvetz 2006).

In short, although direct, large-scale changes to popular federal entitlements may be difficult, advocates of market-based reform have found ways to advance their ideas through incremental changes to the programs. The American system still contains numerous hurdles for significant legislative proposals, but the centralization of power within the Congress has turned it into a more autonomous and independent actor in social policy.

### **A Few Prognostications**

Given the above analysis, what might the future hold for the Medicare and Social Security programs? To a large extent, the answer hinges on which party will gain a sufficient political majority to achieve their own vision of reform. Although this may sound like an obvious and banal point, in fact it is not. Until relatively recently, many would have said that there was sufficient consensus around the core principles underlying Social Security and Medicare, and large enough public support for them, that the two parties held relatively similar positions on reform. Since the 1990s, however, the stance of the two parties has diverged considerably. Thus far, neither side has had a large enough majority to enact its reform vision, although passage of the MMA in 2003 showed what a strong and creative party leadership can achieve with only a slim majority. Thus, although the American political system continues to create hurdles for legislative passage, the margin of partisan control needed to overcome those hurdles appears to be smaller than it used to be, given more coherent and ideologically uniform parties.

Another key factor will be a crisis sufficiently pressing enough to prompt some action. That appears less likely with the Social Security program, as the financial problems facing its trust fund are far enough away to preclude any major political mobilization around changing the program. What is more, there are a number of more incremental steps that can be taken to “save” the program, such as relatively minor increases in payroll taxes. On the Democratic side, the ground is being laid for raising the income threshold on the payroll tax, thereby increasing the burden of the tax on the rich. Several of this year’s Democratic presidential candidates have been proposing this solution to Social Security’s future financial shortfalls. Regardless of which party is in power, major cuts in Social Security benefits would be difficult to achieve without prompting a public outcry. Instead, Republicans are likely to promote ways of shoring up private forms of retirement security by perhaps adding on personal investment accounts or their equivalent to the Social Security program.

The more immediate crisis will take place in Medicare, which might lead one to expect more significant reforms in that program. The idea of converting Medicare to a system of competing private insurance plans may also gain more traction with the public than did private accounts in Social Security. Most people are now in managed care plans and are used to having several insurance plans to choose from. As a single-plan, fee-for-service payer of health care services, Medicare is increasingly out-of-step with what most people experience during their working lives. The problem is that market-based reform

to the Medicare program has so far always cost the federal government *more* than preserving the existing Medicare program. The private plans (Medicare Advantage) that offer full coverage to Medicare beneficiaries cost the federal government significantly more than it costs the federal government to provide coverage. Without the generous subsidies paid to those private insurance plans, many of them would not be in the business of providing this coverage. Thus, if the goal is to save money in the short-run, private plans in Medicare do not seem to be the way to achieve this, regardless of their other merits or long-term potential for cost control.

The most likely development in Medicare policy in the immediate term is a return to the “negative consensus” on cost containment (Oberlander 2003). This will mean an end to any further expansion of the Medicare program as far as beneficiaries are concerned. The “doughnut hole” in the prescription drug coverage<sup>7</sup> will therefore not be filled in any time soon, nor will Medicare beneficiaries see any help with the last, major area of uncovered costs – long-term care. It also will mean squeezing provider payments, as in the past, but now this will affect one of the more recent recipients of Medicare largesse: the pharmaceutical industry. When creating the prescription drug benefit in 2003, Congress inserted a price non-interference clause in the MMA so that the federal government would not engage in direct price negotiations with the industry or set reimbursement prices. This arrangement is unlikely to last. The Medicare program’s initial payment regime was similarly permissive towards doctors and hospitals, but Congress has shown its willingness and ability to constrain their payments when fiscal deficits necessitate it. The same is likely to take place with prescription drug payments.

Overall then, there are no easy answers for improving the sustainability of federal entitlement programs. Politically, such reforms remain difficult, particularly given the decline in bipartisan amity and collaboration. Lacking trust and some willingness to put aside partisan point-scoring will make it difficult to devise a compromise between the competing visions of federal entitlement policy. Instead, if current trends in political polarization continue, one side will need to gain sufficient control over the branches of government to impose their vision of reform.

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<sup>7</sup> This is the coverage gap that was put in for budgetary reasons. In the standard drug benefit in 2008, beneficiaries have their drug costs covered up to a total of \$2510 (with plans paying 75 percent of those costs above a \$275 deductible), and then the enrollee pays 100 percent of costs between \$2510 and \$5726. After that, insurance plan coverage picks up again, and the enrollee pays five percent of drug costs.

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