Embracing Risk
The Changing Culture of Insurance and Responsibility

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The twentieth century was the "insurance age," according to a leading insurance scholar writing in its midst, a time of faith in the possibilities for security through rational risk control (Kimball 1960). But the turn to the twenty-first century seems to have brought an age of risk. Now, many people seem more willing to trust their future to the champions of chance of the stock market—or to lotteries and casinos—than to the grand social insurance schemes developed in the early decades of the last century, like workers compensation and social security. Images of risk taking as the ticket to success saturate contemporary society, from neoliberal (free-market) ideology in politics and economics to the extreme sports fad in popular culture (Simon, chapter 8 this volume). A comment from the Economist expresses the conventional wisdom: "It is no coincidence that free-market economies, which encourage personal risk-taking, have outlived centrally planned ones, which do not" (Economist 1994:21).

But something is missing from this story of a change from security to risk. By focusing on the choice between the two, we obscure how policies that embrace risk always also redistribute risk. The problem—for society as a whole and for insurance in particular—is not how much risk versus security is good policy, but whose risk and whose security is good policy.

First, the recent romance with risk reveals a double standard: celebration of risk taking depends on who gets the risk; condemnation of risk avoiding depends on who gets the security. Recent neoliberal political efforts to replace government security with market risk aim not to reduce social insurance as much as to redistribute it toward employers (and capital owners in general) and away from workers. I explore this double standard of
risk embracing, and the redistribution of security it facilitates, in the specific context of recent reforms of workers compensation insurance in the United States.

Second, this double standard of risk privileges security for employers on the theory that too much risk bearing is harmful for those whose interests are most closely connected to society as a whole. In the prevailing neoliberal ideology, new conditions of global market interdependence make protections for capital owners, not workers, most beneficial. In this view, by reducing security in social insurance programs like workers compensation in favor of policies supporting investors, we can better promote market growth that will bring the most security to workers and others in the long run. I explore two examples of neoliberal policies that offer new “social insurance” to wealthy capital interests to show how this redistribution of security instead has tended to exacerbate insecurity for most workers.

Third, a close examination of the neoliberal rhetoric favoring risk over security shows that this distinction is fundamentally a social and political construction. The labels “risk” and “security” do not objectively describe discrete policy choices, but instead serve to prescribe a vision of community based on moral judgments about who deserves the costs and who deserves the benefits of social interdependence.

**Redistributing Security in Workers Compensation**

Most states adopted workers compensation in the early twentieth century, during a period of reform activity directed at protecting workers against the harsh effects of market risk taking (Moss 1996). Before workers compensation, the nineteenth-century tort system had barred most workers from recovering damages for work injuries through fault-based employer defenses that held workers largely responsible for their losses (Eastman 1910). Workers compensation replaced the right of employees to sue employers in tort with the right to limited no-fault compensation through mandatory employer-based insurance against accidental work injury.

Some early-twentieth-century century promoters of social insurance imagined workers compensation as a model that would bring protection against a wide range of risks of life to many American workers and their families (Rubinow 1913). The origin and staying power of workers compensation has long been explained in terms of the virtues of its risk-spreading approach compared to the risk-targeting approach of the previous tort system. In the traditional theory, by making the price of the product “bear the blood of the working man,” workers compensation encourages consumers seeking lower-priced goods to create market pressures for safer pro-
duction (Somers and Somers 1954). Second, in the conventional wisdom, workers compensation saves costs compared to the tort system by providing benefits that are more predictable and cheaper to administer than fault-based tort damages (Dewees, Duff, and Trebilcock 1996).

But in the last decades of the twentieth century, the predominant neoliberal ideology has stressed the virtues of replacing government protection with free-market risk. By the 1990s, workers compensation had come to stand for the problems, not the possibilities, of social insurance. Nonetheless, this change in vision of workers compensation is not so much a shift from risk spreading to risk-embracing as a shift in security from workers to employers.

**Against Security in Workers Compensation Reforms**

Since the late 1980s, most states have dramatically revised their workers compensation laws to impose new substantive and procedural limits on benefit claims (McCluskey 1998). Following these reforms, the amount of benefits received by injured workers plummeted for the first sustained period since at least the 1930s (Burton et al. 1997). For example, the nationwide amounts employers (and their insurers) paid out in disability benefits (cash awards compensating income lost due to work-related disability) dropped 32.8 percent from 1991 to 1994 (id.). Many reports of the reforms' effects tell stories of seriously injured workers whose inability to get timely or adequate compensation has taken them from middle-class stability to financial ruin (Fricker 1997; Ellenberger 1999; Consumer Reports 2000).

Supporters of these reforms argued that benefit reductions would “restore balance” because the previous period of expansion had pushed the system too far in the direction of security for injured workers (Alliance of American Insurers 1990). In 1972, a bipartisan commission appointed by President Nixon to study workers compensation found serious inadequacies in state benefit levels and recommended raising benefit amounts and lifting barriers to compensating many work-related illnesses and injuries (National Commission on State Workmen’s Compensation Laws 1972; Burton 1994). Over the next decade, many states did expand compensation, though these changes nationwide fell significantly short of the commission’s recommended benefit improvements. By the mid-1980s, employers and insurers in many states were complaining that excessive benefits had led to “skyrocketing” insurance costs (McCluskey 1998).

Advocates of these restrictive reforms stressed two general problems with expanded protection against the risks of work accidents. First, they
claimed this security shielded workers from responsibility for reducing the costs of work injuries, thereby increasing society’s overall risk from work accidents. This is the problem of moral hazard: the tendency of those who are protected from the costs of a loss to take less care to prevent those costs (Baker 1996; Heimer 1985). As evidence of such cost-increasing incentives, reform advocates pointed to data showing that benefit costs rose at a faster rate than statutory benefit increases during the expansionary period (Moore and Viscusi 1990). In their view, broad no-fault compensation allowed workers to bring claims for injuries and illnesses not caused by work (aging, sports activities, or preexisting illnesses) and for wage losses caused by factors other than injuries or illnesses (like plant closings, lack of skill, or poor motivation). Reformers argued that less security against work injury costs would better reduce those costs by reducing incentives for bringing fraudulent, or at least questionable, injury claims.

The second reason reformers gave for reducing security is that the goal of protecting injured workers against work injury costs can only be reached at the cost of increased productivity. As one insurance executive warned, “[S]ociety must weigh the compensation that will be paid to a worker . . . against the economic loss that will be sustained if a business moves out of the state—or out of the country” (Burke 1992). In this view, if employers spend less on mandatory workers compensation benefits, in the long run they will produce more jobs and more affordable consumer goods. By individually shouldering more of the unavoidable costs of work injuries, workers will have more resources to better avoid or insure themselves against these costs. In the standard neoliberal theory (also used to support efforts to privatize social security and Medicare) the market, rather than government mandated programs, can best protect workers at the least cost.

Rhetoric of Risk in Impairment Reforms
One of the major reform provisions, the change to an impairment-based approach to permanent disability benefits, provides an example of the double standard in the recent turn toward embracing risk. Workers compensation provides temporary benefits to replace income lost during recovery from an injury or illness; after no further recovery is expected, workers with long-term injuries and illnesses may seek permanent disability benefits to replace either partial or total loss of earnings, depending on the severity of the disability. Permanent partial disability benefits have been the most costly and most controversial part of the workers compensation system (Burton 1997; Oxfeld 1998).

States traditionally have used an impairment-based approach to fix the
amount of disability benefits for certain "scheduled" permanent injuries—primarily traumatic injuries to extremities (Pryor 1990). For example, permanent loss of use of an arm in New York is compensated according to a set schedule of 312 weeks of benefits (based on a weekly benefit of two-thirds of lost income up to the maximum cap). Other permanent disabilities, such as back injuries or respiratory illnesses, typically have been compensated based on actual or predicted lost wages—the degree to which the injury reduces the worker's wage-earning capacity.

As part of their 1990s political campaign against high workers compensation costs, business and insurer groups have advocated that states expand this impairment approach by using ratings devised by the American Medical Association (AMA) in its Guides to the Evaluation of Permanent Impairment to determine benefit levels for a wide range of permanent injuries (Fletcher 1996). These ratings purport to measure an injured workers' medical condition alone, in contrast to wage-loss approaches to disability, which consider the economic impact of the medical condition by looking at factors such as age, occupation, skills, education, and labor market conditions. The Guides provide a system for translating measurements of certain bodily limitations into measurements of a person's overall functional loss. For example, the Guides specify that persons with 50 percent impairment of normal hand function have a 27 percent “whole-person” impairment—regardless of the extent to which the impairment actually affects any particular person's job performance (American Medical Association 1993).

A number of states have responded to this reform campaign by using the AMA impairment ratings as the sole factor, or as a more important factor, in determining certain permanent disability awards (McCluskey 1998). In addition, a number of states have used the ratings to set threshold requirements for obtaining certain kinds of permanent benefits (McCluskey 1998).

With impairment-rating reforms, seriously injured workers take on the risk that their particular impairment will produce greater economic loss than the norm assumed in the rating system. In the classic (though hardly typical) example, if a bank president loses a finger from a work accident, but is not incapacitated from her job as a result, she will get the same compensation as a pianist with a similar injury whose career is destroyed. In contrast, the wage-loss approach to disability protects (to some extent) against the chance that particular labor market conditions or characteristics of the worker will result in severe income loss from an impairment that might not similarly disable workers with different skills, education, ages, or geographic locations.
Moreover, these impairment-rating reforms increase the risk of work accidents for many workers because the AMA Guides, and the state reforms that adopt them, set the impairment ratings to underestimate the economic impact of injuries for many workers (Spieler 1995). For example, several recent state reforms require injured workers to have a whole-person impairment rating of 50 percent or more to qualify for permanent total disability benefits (McCluskey 1998). Yet a 50 percent impairment rating is set high enough to exclude the vast majority of permanently injured workers with no wage income. For example, a permanent neurologic impairment that leaves an injured worker in a “state of semicoma with complete dependency and subsistence by artificial medical means” only receives a rating of 30–49 percent whole-person impairment under the AMA Guides (American Medical Association 1993:4/142, table 4). Similarly, several states have enacted reforms excluding permanently injured workers with impairment ratings below 15 or 20 percent from qualifying for permanent partial disability benefits (McCluskey 1998). But in a study of the impact of this reform in Texas, more than one-third of injured workers with impairments rated less than 15 percent suffered a total loss of wage earnings for at least several years after their injury (Research & Oversight Council on Workers' Compensation 1996). The Guides offer no data or explanation to support the numbers in their ratings.

Nonetheless, advocates of impairment reforms justify this increase in workers’ risk, first, on the ground that it reduces moral hazard. Because the wage-loss approach protects against economic loss, it creates incentives for workers to increase that loss: they get paid for not working. In contrast, business groups argued that the fixed payments of the impairment approach will “reduce a workers’ incentive to stay off the job to increase the benefits received for his or her injury” (Fletcher 1996).

But the recent political attention to the deterrence value of risk bearing is one sided. The impairment-rating reforms shift rather than reduce the moral hazard problem, because these changes shift rather than reduce insurance against the economic impact of work injuries. Instead of bearing the risk that a compensable work accident will result in a worker’s long-term economic incapacity, employers (through their insurers) pay a fixed amount per impairment regardless of the actual economic impact.

As a result of this “insurance,” impairment-rating reforms reduce incentives for employers or insurers to return that injured worker to work. For example, under the impairment approach employers (and insurers) will
have fewer incentives to keep workers' jobs available during the recovery period; to make accommodations that would allow permanently injured workers to safely return to work; to encourage claimants' loyalty and motivation by paying initial benefits promptly, fairly, and respectfully; or to ensure maximum medical recovery by facilitating prompt and high-quality medical care.

Furthermore, the impairment-rating reforms increase employers' and insurers' opportunities for moral hazard because the ratings particularly underestimate the economic impact of impairments for many of the workers for whom work injuries are most costly. As a result, these reforms reduce employers' and insurers' incentives for improving safety and reemployment precisely where this deterrence might produce the most societal cost savings. The reforms shift the economic risk of work injuries particularly to workers who have the least education, most investment in a particular occupation, and fewest marketable skills. In the study of Texas' impairment-rating system, almost two-thirds of injured workers with less than an eighth-grade education or older than fifty-five remained unemployed for at least several years despite receiving an impairment rating of under 15 percent (Research & Oversight Council on Workers' Compensation 1996). For example, following Kentucky's adoption of the impairment-rating system for awarding disability benefits, a fifty-seven-year-old coal miner with a high school degree received a 10 percent impairment rating for a work-related back injury, making him eligible for benefits of $58 a week for eight years (Garrett 1998). He probably would have received about $400 a week for life under the old wage-loss system because his particular skills, age, and the local labor market made obtaining alternative employment unlikely (Garrett 1998).

Lost Productivity

Reformers' second justification for the impairment-rating change is that spreading the risk of economic harm to employers is costly, aside from deterrence concerns. A lobbyist for the Ohio Manufacturers Association defended an impairment-rating proposal by explaining, "Workers' comp was never supposed to compensate somebody because they never got more than an eighth-grade education" (Goel 1995). Reform advocates claimed that to avoid making workers compensation a general welfare system, disability compensation should be limited to the effects of physical impairment alone, without considering age, education, or other labor market factors affecting earnings capacity (Major Workers' Comp Reform Package under Consideration by State Legislature 1997). A leading work-
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ers compensation expert, Richard Victor, explained the problem of providing security against these combined risk factors by saying, "Fundamentally, it comes down to whether you want a custom-tailored suit or a ready-made suit"; more accurate measurements are "expensive and slow" (Fletcher 1996:21). This explanation suggests that protection against standardized impairment ratings' risk of inadequacy is a luxury that workers generally cannot afford.

Proponents of the impairment approach assume that the nonmedical factors contributing to disability have effects that are particularly variable and therefore especially costly to insure. By basing disability benefit amounts on fixed medical measurements and by minimizing adjudicators’ discretionary adjustments for particular economic circumstances, the impairment-rating reforms in theory allow employers and insurers to plan more easily for the costs of that disability. Reform advocates suggested that the cost savings of a more predictable system would benefit workers and society in general by strengthening the compensation system as well as fostering a more competitive business climate.

In addition, reformers argued that the greater simplicity and certainty of the standardized impairment ratings would reduce claims conflicts that delay compensation and divert resources from benefits payment. An insurance industry lobbyist explained, "States using the AMA Guides have been able to reduce litigation and related friction expenses [especially disability evaluations performed for this purpose] because the Guides provide an objective and uniform methodology" (Oxfeld 1998). Reform advocates contended that workers' gains from the wage-loss system's more accurate "fit" between disability benefits and actual economic loss are outweighed by the attorneys costs they incur in trying to prove their exact loss (Fletcher 1996).

But again, these arguments about the advantages of risk bearing do not represent a turn away from valuing security as much as a turn toward valuing security for employers (and insurers). The cost-savings rationale for accepting the lesser protection of standardized impairment ratings is really a rationale for shifting the benefits of custom-fitting protection from workers to employers (and insurers).

The wage-loss approach to calculating disability gives employers and insurers the higher risks of a "ready-to-wear suit." According to the traditional theory of workers compensation, in return for protection against tort damages, employers sacrificed the security of the tort system's individualized inquiry into exact causes of a worker's loss and accepted the standardized alternative of broad no-fault compensation of economic loss. As a result, employers and insurers assume the risk that actual costs will not closely fit
their budgeted amounts and that high economic losses will require belt-
tightening or changes in business plans (though this risk of variability re-
mains less than under the tort system). Although many employers reduce
their workers-compensation risk by purchasing outside insurance protec-
tion, generally they can expect that insurers will pass on at least some of the
costs of this variability in premium charges (see, e.g., Fletcher 1991).

The arguments in favor of impairment-rating reforms rest on the as-
sumption that, when it comes to employers and insurers, more customized
protection will save money. By trimming down disability benefits to elimi-
nate nonmedical reasons for wage loss (like lack of education or old age),
the impairment-rating approach secures employers and insurers against the
vagaries of workers' conditions, freeing up resources for other productive
ends. But this increased predictability for employers and insurers reduces
predictability for workers and their families. Under the new impairment-
rating systems, workers' actual economic losses will be more variable and
disruptive. By providing benefits ill fitted to injured workers' particular la-
bor market situations, the impairment approach is likely to force many se-
eriously injured workers and their families to make costly adjustments to
cope with sudden, dramatic income loss.

This instability from more unpredictable losses can reduce productivity
by workers and their families, just as it does for employers and insurers. The
need to alleviate an immediate financial crisis caused by inadequate bene-
fits may prevent injured workers from keeping or making investments crit-
ical to sustaining themselves and their families in the long run. For ex-
ample, one seriously injured construction worker without a high school
degree received a low rating under his state's new impairment system, enti-
titling him to a settlement of only $7,400; under his state's previous wage-
loss system, he could have received about $73,000 (Ellenberger 1999). In the
previous wage-loss system, many injured workers with poor labor market
prospects used such substantial settlements to start their own businesses
or to return to school. In the new system, the injured construction worker
lost his home, destroyed his credit rating, and struggled to survive on a low-
waged job delivering pizza (Ellenberger 1999).

Furthermore, the impairment-based reforms do not reduce costly fric-
tion associated with the uncertainty of measuring economic loss; instead, 
they simply shift the costs of uncertainty to workers. Workers can no longer
expect disability benefits to protect against their particular economic risks
after an injury, but instead may have to spend more time and energy coping
with a financial crisis and seeking alternative assistance from family or
government. While employers and insurers may be less likely to dispute the
narrower impairment-based benefits, workers probably will have to overcome other costly barriers to income replacement.

For example, in a case involving the wage-loss approach to compensation, an insurer denied a claim for disability benefits on the theory that a Florida construction worker with a serious leg injury, a tenth-grade education, and a family to support could obtain alternative work if he tried hard enough (Consumer Reports 2000). A judge overturned the insurer’s denial after five years of litigation, but two days before that favorable ruling the worker committed suicide after financial destitution led him to despair (Miller 1998). An impairment approach might have reduced the insurer’s questions about his benefit amount, thereby avoiding the prolonged litigation, but the low benefits he could anticipate under that approach probably would not have substantially reduced the claimant’s stressful uncertainty about his future.

Redistributing Social Solidarity in Workers Compensation

As the example of impairment-rating reforms shows, reducing social insurance for workers tends to increase a form of social insurance for employers and insurers. This increased protection for employers brings the typical problems of security: moral hazard and constraints on others’ productivity. Yet the workers-compensation reform campaign presented these problems for employers’ and insurers’ security as potential virtues. In their reasoning, employers’ and insurers’ freedom from personal responsibility reduces friction and promotes productivity, while the friction and lost productivity caused by spreading risks to workers increases their personal responsibility.

What makes greater security for workers an unaffordable and often hazardous luxury, while greater security for employers and insurers is a necessary and often beneficial foundation for healthy economic growth? First, reformers assumed that efforts to hold employers and insurers personally responsible for reducing work accident costs will be futile or even harmful. In their view, when the wage-loss approach to disability benefits forces employers and insurers to bear more of the risk of economic harm for work injuries, employers and insurers will not reduce those costs by increasing safety or reemployment of injured workers. Instead, they will reduce costs by aggressively resisting claims. Accordingly, increasing employers’ and insurers’ risk bearing only creates more, or different, moral hazard as employers (and their insurers) seek new ways to spread the increased risk to others.
Second, the arguments of reformers assumed that if employers and insurers have to bear the uncontrollable risks of economic effects of work accidents under a wage-loss approach, they will not simply absorb the costs in isolation from the rest of society. Instead, reform advocates assumed employers' and insurers' costs will affect others, as reduced productivity and profits hurt jobs, the supply and price of products, and the economy in general.

And just as reformers assumed that the costs of risk to business interests will spread to workers and to society in general, they assumed the advantages from employers' and insurers' security will spread to benefit others. In this view, even if some workers and their families face more risk and disruption in the short term from the impairment-rating revisions, employers' and insurers' increased predictability and stability will lead to more jobs and economic growth that will offset workers' losses in the long run.

These assumptions of shared costs and shared benefits reveal a strong vision of social solidarity, where workers and others feel the pain of business owners and reap their gain. In contrast, reformers have an individualistic view of workers' interests. Reform advocates tended to assume that the benefits of increased security to workers under the wage-loss system would not trickle down to provide gains for employers and on the rest of society. Instead, reform discussions often presented these gains as a selfish and even fraudulent personal enrichment of workers (and their lawyers and doctors) at the expense of others.

Similarly, the reform arguments assumed the costs of risk to workers will be theirs (or their families') alone to either reduce or absorb. Proponents of impairment reforms treated the possibility of financial pressures, instability, and reduced productivity likely to result from workers' increased risk bearing as personal problems that will have little effect on employers or the rest of society. While employers' and insurers' difficulties coping with the costs of risk bearing deserve sympathy and support, in this view, the difficulties faced by workers demand sacrifice, self-reliance, and tough choices.

For example, a medical expert speaking on occupational safety criticized the expansion of workers compensation to pay for wages lost due to cumulative trauma disorders such as carpal tunnel syndrome [Louis 1998]. He contended that disabling pain from repetitive motions in computer or assembly line work is a personal problem undeserving of workers compensation benefits or regulatory protection. In his view, the loss of income from such strain is caused by the workers' individual physical, mental, and moral
weaknesses, and by their choice of an occupation unsuited to their abilities [Louis 1998]. But his emphasis on workers' "individual responsibility" for their risk accompanied an implicit assumption of social responsibility for alleviating employers' risks. He assumed that employers deserve the protection of "custom-fitted" workers who can adapt to the demands of job, regardless of the costs. He suggested that protecting workers from certain occupational injury costs fosters self-serving dependence, while protecting employers from these costs promotes an ethic of self-sufficiency.

In another example of one-sided individualism, Sebastian Junger, author of a best-selling story of danger and death in the swordfishing industry, wrote in a New York Times op-ed essay that "we need people who are willing to... work in jobs that kill people with relentless regularity" [Junger 1997]. Junger romantically recalled how his own hazardous work as an arborist rewarded him with relatively high wages and feelings of power. But when he seriously injured himself with a chain saw, he was pleased to be a well-educated worker able to quit and find safer, more vicarious, ways of appreciating risk. He acknowledged that most workers in high-risk jobs have few alternatives and receive few rewards—often ending up facing financial hardship and unemployment, if not death, for their courage. He concluded that the socially useful suffering of these risk takers can help his more privileged peers gain "perspective" on their own thrill seeking.

Junger captures not just the neoliberal romance with personal risk bearing, but also its covert—and skewed—ideal of social solidarity. He treats the costs of workers' risk bearing as a matter of personal choice or fate. In his vision, it is up to individual workers, not employers or government, to accept or escape the tragic consequences of occupational hazards to human life and limb. In contrast, he assumes that workers, and society in general, must protect employers from the costs of reducing these risks. Capital owners' interest in being free from responsibility for avoiding work hazards is not their personal problem, to be resolved by heroic acceptance of lost profits or by careful choice of business. Instead, he identifies employers' dependence on risk spreading as society's gain: it is "we," not them, who need "relentless killing" to make money. In contrast, it is "them"—those with little education and few resources—not his imagined "we" who are left to personally bear the price. Indeed, Junger constructs the losses from occupational risk taking as a beneficial source of moral inspiration for his peers privileged enough to flee such grave responsibility.

This unequal approach to personal responsibility recalls the prevailing approach to work accidents in the nineteenth-century tort system. Then, the defense of contributory negligence insulated employers from liability if
more careful or motivated workers could have prevented the accident, and the defense of assumption of risk barred recovery for workers deemed to have chosen the job despite its hazards. Nineteenth-century courts sometimes rationalized such strict individual responsibility for workers on the theory that the corresponding social protection for employers would benefit the rest of society in the form of broader economic development (Friedman and Ladinsky 1967). Supporters of the change to workers compensation countered this theory by arguing that increased social responsibility for workers' losses would benefit the public by relieving the burden on charities from impoverished families and by protecting labor resources necessary for robust economic growth (Eastman 1910; Moss 1996).

**Promoting New Insecurity with New Social Insurance for Capital**

The increased embrace of worker security in the shift from nineteenth-century tort law to workers compensation reflected twentieth-century policymakers' increased recognition of workers' interests as integral to societal interests. The recent scaling back of workers compensation and other forms of social insurance marks a turn toward a different vision that identifies the interests of employers with the interests of the whole.

In the prevailing neoliberal ideology, this new social solidarity directed toward capital interests reflects a new global economic reality that has made older theories of social insurance obsolete (Yergin and Stanislaw 1998). In this view, employers who once might have absorbed or prevented more of the costs of work accidents now have to meet the demands of heightened global competition, some of it from nations where employers have much less responsibility for avoiding or compensating occupational health and safety risks (Greider 2000). Investors who once might have accepted lower profits (or longer-term profits) allowing safety investments and better benefits for workers now have greater opportunities, and greater market pressures, to match the larger and faster returns available in emerging markets where workers are forced by poverty and repressive regimes to work under harsher conditions (Greider 1997). Politicians who may once have identified with the security interests of workers and middle-class families now face pressure to shift more of their allegiance to the wealthy campaign financiers who control their political future (Clawson, Neustadt, and Weller 1998; Greider 1992; Sanger 1999b), or to the globally mobile capital interests who control the future of their local economies (Page 2000). As a result of this perceived enhanced solidarity with global capital (Kristoff and WuDunn 1999), neoliberal doctrine presents enhanced security for em-
ployers and capital owners as the best route to security for workers and others (Yergin and Stanislaw 1998).

But neoliberalism's double standard of risk taking helps create the disproportionate capital power that makes this one-sided social solidarity seem necessary and natural. Workers and their families become more dependent on global capital market gains for their security when alternative sources of protection—such as government-provided social insurance benefits and labor protections—become weaker. In addition, the rest of society becomes more vulnerable to global capital market losses when increased security for employers and wealthy investors brings increased social responsibility for their risk taking.

Moreover, rhetoric promoting market risk taking has supported new affirmative forms of social insurance for global investors, not just reforms of workers compensation and other social insurance programs for workers. But, following the classic moral hazard analysis, this new social insurance gives wealthy capital owners incentives to take greater risks, which in turn makes it likely they will demand further protection from the consequences of that risk taking. As a result, this new shift toward capital security will not necessarily make up for the loss of workers' security produced by neoliberal social insurance reforms, but instead will often reinforce and intensify new conditions of insecurity for most of society.

One dramatic new social insurance program developed during the 1980s and 1990s came from the International Monetary Fund (IMF) (Hahnel 1999). When large commercial bankers faced losses from risky loans in the Latin American debt crisis of 1982, the IMF expanded its involvement in regulating and insuring international investment risks (Pastor 1993). The IMF socializes global investors' losses by offering below-market, taxpayer-backed loans to enable governments to maintain currency values and debt payments (Hahnel 1999).

For example, private foreign investors flocked to Mexico during the early 1990s to earn quick returns of 80–100 percent, taking advantage of that country's new risk-embracing policies that had deregulated financial markets, privatized government industries, and liberalized international trade and investment policies (Greider 1997). When the Mexican economic bubble burst in 1994, the IMF (led by the United States) provided a $50 billion bailout package that protected many of these high-flying investors from the risk of severe losses (Greider 1997). In the late 1990s, the IMF spearheaded more than $150 billion in funding to prop up collapsing investments in Indonesia, Thailand, South Korea, and Russia (Sanger 1998a), as well as a $41.5 billion loan to Brazil (Sanger 1998b).
Many policymakers and pundits acknowledge that the IMF’s protection from losses from risky investments creates moral hazard by encouraging careless investment that will exacerbate risks of further economic collapse (see, e.g., Weinstein 1998). But, in the prevailing wisdom, the need for social solidarity in the face of global economic risk taking often precludes personal responsibility from global investors (Fischer 1999). In the international financial crises of the late 1990s, media reports and policy analysts justified public protection on the ground that global investors’ losses were “contagious,” like infectious disease or fires, bound to spread beyond individual risk takers (Sanger 1997, 1999a, 1998b; Kristoff and Wyatt 1999).

This reasoning circuitously promises that when taxpayers buy more insurance (more IMF protection) for wealthy global speculators, they will also insure themselves against the global upheaval that results from the irresponsible risk taking this insurance in turn produces. For example, New York Times columnist and author Thomas Friedman projects a scenario where a world without IMF bailouts leads to catastrophe: he imagines economic collapse sparking racist rioting in Southeast Asia that causes governments to impose martial law, in turn provoking threats of Chinese military action; South Korean mobs ransacking U.S. corporations and the U.S. Embassy; and the Russian government auctioning off nuclear technology and uranium to the highest bidder under pressure from legions of unemployed or unpaid workers (Friedman 1998). Friedman sums up his point with the quip, “How’s that for a moral hazard!” (1998:Cl).

Friedman’s narrative turns the American taxpayers from insurers socializing global investors’ losses into insureds who receive the IMF’s protection from global chaos in solidarity with wealthy investors. Friedman obscures the IMF’s risk spreading from the wealthy to taxpayers as a whole by focusing instead on risk spreading from desperate foreign masses, ignoring the question whether the IMF’s protection of global speculators from the social and political consequences of their profit-seeking might contribute to those globe-spreading losses. In another example, President Clinton defended his support for the IMF bailout of Brazil’s debts by asserting, “A strong Brazil makes for a strong United States” (Sanger 1998b), masking his policy of solidarity with wealthy global investors with rhetoric of international solidarity between the American public and the Brazilian public.

But increased social responsibility for risks to global investors has helped increase individual responsibility for workers, making this new global solidarity one sided. As investors spread more of their risk to the IMF, the IMF faces more pressure to control this risk. The IMF has sought to re-
duce the risks of global investment not by regulating investors' risk taking, but by imposing regulatory controls that help investors further shift their risks to others. The IMF plays a major role in constructing and enforcing the neoliberal double standard of risk taking by conditioning its loans—used to repay foreign investors—on plans for fiscal austerity and "structural adjustment" (Schydłowsky 1995; Hahnel 1999). These policies aim to increase investor security by (among other things) reducing government spending on social insurance for workers, families, retirees, and others dependent on labor income or government assistance. For example, the IMF's 1998 bailout of Brazil was conditioned on cutbacks in Brazil's pension system for state workers (Schemo 1998a). In turn, as the IMF's risk-reduction policies make many developing nations safer for global capital, nations with stronger social insurance systems for workers are likely to face additional competitive pressure to reduce their own protections.

In a second example of new domestic social insurance skewed toward wealthy investors, the U.S. Federal Reserve Bank has increased its protection for creditors and employers by shifting its policy emphasis further away from reducing unemployment toward reducing inflation (Bluestone and Harrison 2000). Under Paul Volker's leadership from 1979 to 1988, and continuing since then under Alan Greenspan, the Federal Reserve generally has pursued a tight money policy aimed at insuring capital owners—especially large banks and bondholders—against the risk that economic growth will lead to rising wages and consumer prices that will erode the value of their loans. This tight money policy spreads to others some of the risks from precipitous economic growth that would otherwise fall on capital lenders. When the Federal Reserve intervenes to raise interest rates in overheated economies, wealthy bondholders gain while consumers lose cheaper access to home mortgages and consumer credit, more businesses and farmers lose access to capital for production, and workers lose jobs and wages as employers restrict demand for labor (Grabel 1993).

Again, neoliberal theory predicts that the gains to creditors from that risk-spreading monetary policy will trickle down to benefit society in general in the long run as consumer prices fall and savings increases, bringing the economy back into "balance." However, this socialized responsibility for creditors' losses instead can produce moral hazard that will have the opposite effect—allowing wealthy lenders to spread more risks to others and to retain more gains from any ensuing economic growth, at least under some conditions (Greider 1987). For example, the high interest rates of the Volker era contributed to pressures for increased borrowing, thereby increasing much of society's dependence on creditors for continued financial...
security (Greider 1987, quoting Sonnino 1986). With this heightened dependence on debt, society has become even more vulnerable to creditors' increased risk taking, as creditors have more power to pass on risks of inflation to borrowers in the form of higher interest rates. In turn, this increased risk-spreading power has also increased wealthy creditors' power to keep a greater share of their gains to themselves.

For example, as higher real interest rates during the Volker era suppressed wage growth and contributed to job insecurity (Greider 1987), 2 many middle-class families relied on borrowing to maintain their assets and living standards (Crotty 1993; Greider 1987) and businesses relied in part on consumer debt to maintain demand for goods and services (Greider 1987; Bluestone and Harrison 2000). Total home mortgage and consumer installment debt rose more than 400 percent between 1980 and 1992 (in unadjusted dollars) (Sullivan, Warren, and Westbrook 2000, citing Bureau of Census 1997), and from 1980 to 1994, household debt increased from 65 to 81 percent of total income (Sullivan, Warren, and Westbrook 2000, citing Canner and Luckett 1991 and Canner, Kennickell, and Luckett 1995). During the Reagan and Bush administrations of the 1980s, the federal government racked up enormous federal deficits (Crotty 1993; Bluestone and Harrison 2000), partly in an attempt to counter the dampening effects of monetary restrictions on the economy. Corporate debt similarly skyrocketed during the 1980s, in part because tax breaks stimulating supply-side growth combined with high interest rates encouraged risky financing (Crotty 1993; Greider 1987). In addition, the Federal Reserve's policy favoring high interest rates inflated the value of the dollar relative to foreign currencies, thereby dramatically increasing imports relative to exports and encouraging a shift in manufacturing investment to other countries (Gordon 1996; Crotty 1993). Not only did this increased trade deficit further increase job insecurity in some sectors of the economy, but it also changed the United States from a net international creditor in the early 1980s to a net international debtor owing about $440 billion to foreign creditors by the end of the decade (Crotty 1993).

This major increase in societal dependence on borrowing has given wealthy lenders additional power to demand further protections from inflation risks. For example, in his 1992 election campaign, President Clinton supported a program of "Putting People First," which aimed to benefit the middle class and poor through new public investments in job creation, job training, education, and universal health insurance (Woodward 1994). He withdrew much of his spending plans, however, when economic advisors warned that bondholders would react by raising interest rates, thereby can-
celing the benefits of his economic stimulus plan because of the economy's heavy dependence on debt (Woodward 1994).

By the time of the 2000 presidential election, large government deficits had become large expected surpluses, and the candidates for both major parties made reduction of accumulated national debt a high priority. Even most Democratic leaders offered only modest proposals for spending any surplus on investments that would provide security for workers, the middle class, or the poor (Reich 2000b; Judis 2000; Meyerson 2000). In the conventional political wisdom, plans for major spending to benefit the middle class are constrained by the need to continue to maintain wealthy investors' "confidence" by further protecting them from risks of wage increases and threats to the value of the dollar (Page 2000).

In short, neoliberal policies aimed at protecting the wealthiest investors have not produced a new balance where capital owners' security provides stable ground for worker security. Instead, increased social responsibility for the risks of wealthy investors has helped redirect economic growth to foster both greater market risk and decreased government protection for a substantial number of Americans (Greider 1987; Reich 2000a). Real hourly wages fell by an average of 10 percent from 1973 to 1995; median family income rose only 4 percent during that period, despite a large increase in the number of hours worked to produce that income (Bluestone and Harrison 2000). After 1983, the least wealthy four-fifths of Americans received no gain in wealth from economic growth, even though their wealth had increased substantially during the growth of the 1960s and early 1970s (Bluestone and Harrison 2000). Indeed, the least wealthy 40 percent of U.S. families faced a substantial decline in net worth (including home ownership) through the 1980s and early 1990s (Keister 2000). In contrast, the richest 1 percent of wealth owners received two-thirds of the gains in financial wealth to American households during the 1980s (Wolff 1995).

Protection against inflation and against global risks for capital does not seem to have produced a substantial boost in spending power for many Americans: from 1973 to 1993, "the time necessary for a worker paid the average hourly wage to earn the average household's yearly expenses has grown forty-three percent" (Henwood 1993). Consumer interest rates remain at historically high rates, despite dramatic drops in inflation and despite other regulatory changes protecting creditors against risk: while banks' rates for borrowing fell from 13.4 percent to 3.5 percent between 1980 and 1992, average credit card interest rose slightly from 17.3 percent to 17.8 percent (Sullivan, Warren, and Westbrook 2000). Consumer bankruptcy rates among middle-class Americans surged from the 1980s through
the 1990s and, in 1998, national aggregate savings rates were negative for the first time since the Depression era (Sullivan, Warren, and Westbrook 2000).

By 1998, inequality of U.S. family incomes was the highest since such data began being calculated in 1947, up substantially from the 1980s (Henwood 2000). And when the expanding economy began to push wages up during the late 1990s, a series of interest rate hikes by the Federal Reserve succeeded in keeping wage growth small while spurring further growth in stock market returns (Uchitelle 2000; Berenson 2000; Heilbrun 2000). And even though more workers and households are sharing in the stock market boom, 86 percent of stock market gains during the period 1989–98 went to the richest 10 percent of households [Hahnel 1998].

Embracing Subordination in the Guise of “Risk”

The problem with risk embracing as a characterization of the times is not only that the purported neoliberal move from security to risk is one sided. More fundamentally, the risk-embracing picture exaggerates security and risk as self-evident opposites. In fact, the distinction between seeking security and taking risks is subject to interpretation: the same behavior may be described as either or both depending on social context and political purpose.

Consider the greeting-card saying Jonathan Simon quotes at the beginning of chapter 8 of this volume: “The loftier your goals, the higher your risk, the greater your glory.” For most readers, that message of self-assured individualism probably calls to mind images of mountain climbers and Internet entrepreneurs rather than, for instance, workers compensation claimants, undocumented Mexican immigrants, or welfare recipients. But that is not as much because of differences in the riskiness of the actions involved but because of the differences in social status—often influenced by race, class, and gender identity—of the actors.

Returning to the example of workers compensation, the clerical worker with carpal tunnel syndrome who perseveres in bringing a contested disability claim is not likely to be hailed for her tenacity, rebelliousness, or high standards. Instead, prevailing popular culture and policy experts are more likely to portray her pursuit of compensation and her concern for health as selfish greed, or as irrational and irresponsible malingering.

For another example, border-crossing undocumented immigrants who defy heavily armed government authority in pursuit of personal economic gain could, in theory, personify the virtues of neoliberal risk taking. However, in mainstream U.S. politics and culture, even if immigrants’ pursuit
of gain in the global market requires entrepreneurial, antibureaucratic nerviness, their behavior is typically understood instead as base recklessness; not as self-reliant glory seeking but as parasitic evasion of responsibility. As one anti-immigration activist explained, “hundreds of millions of people have chosen to seek safer havens elsewhere rather than seek indigenous solutions of their society’s problems” (Pelto 1998:B5).

Similarly, consider the welfare recipient who refuses to give up her child, to get married, or to accept low-wage work, and instead aspires to stay on government aid to support her dreams of higher education, motherhood, and long-term independence. She is more likely to be condemned for being dependent and insolent than celebrated for setting lofty goals and for seeking individual freedom. The message of “work-first” policies included in recent welfare reforms is not to hold out for the best job or to pursue the “glory” of a better life for self and family, but to be grateful for any job (or for any bill-paying husband) (DeParle 1997). Mothers without well-paying jobs or well-paid husbands tend to be shamed for their irrationality and self-indulgence, not honored for shouldering the hard work of single parenting in high-risk circumstances.

While some risk takers are condemned both for their rash ambition and their careful concern for protection, others are glorified for embracing risk and security at the same time. Global securities traders, like former Treasury Secretary and investment banker Robert Rubin, exemplify both gutsy speculation and prudent calculation as they pursue high profits in newly deregulated markets (see, e.g., Weisberg 1998). International business dealers demonstrate free-market daring even while conducting their exploits under protection of bodyguards and armored cars in countries plagued by violence and corruption (Schemo 1998b). Ads for sport-utility vehicles encourage affluent consumers to display their success by combining rugged adventure seeking with protective fortification (Bradsher 2000).

Furthermore, while the pursuit of protection by some—immigrants, welfare mothers, workers compensation claimants—is portrayed as a sign of irresponsible government dependence, the achievement of protection by others may be portrayed as productive market risk taking. The multinational corporations that represent the triumph of free-market risk taking inherently depend on socialized risk spreading for their success. Limits on liability, which define the corporate form of doing business, are a form of government insurance through which the risks of capital ownership are spread to consumers, workers, citizens, and others (Baker 1996). This risk protection provides predictability and flexibility that facilitates rational investment and promotes economic development, in the conventional wis-
dom. Yet in the prevailing view, this corporate legal structure has come to be an integral part of market risk taking, not an instance of government protectionism.

The neoliberal condemnation of certain people as both risk takers and risk avoiders represents not a value system in which risk outweighs security, but a value system in which both risk and security are constructed as reasonable and productive for some persons but unreasonable and destructive for others. The problem with the risk-embracing rhetoric that characterizes prevailing neoliberal policies is not that it fosters excessive individual responsibility at the expense of social protection. Instead, the problem is how neoliberal policy distributes risk and security: whose individual risk taking and social risk spreading is deemed to further the interests of the broader community? The most consistent message of the neoliberal system is not the embrace of individual risk but the embrace of a vision of community that subordinates the interests of the majority of people to the interests of a few.

NOTES

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1. For example, investors financing U.S. factories face competing choices from foreign stock markets with annual returns averaging 21 percent in Hong Kong, 28 percent in Argentina, and 18 percent in India, compared to closer to 11 percent in the United States and Germany (Greider 1987:235).

2. During the Volcker era, the share of the U.S. income produced by wages shrunk to the lowest level since 1929; from 1979 to 1983, personal income from interest grew by 70 percent, compared to a 33-percent increase in wage income (Greider 1987:578-79). The tight money policies of the early 1980s particularly hurt organized labor, so that when the economy picked up again, labor was unable to bargain for a share of the gains (Greider 1987:585-87).

3. Consumer credit.exploded" beginning in the early 1980s as the credit industry took advantage of inflation-fighting interest rates and the related abolition of usury restrictions to expand marketing of debt (Sullivan, Warren, and Westbrook 2000:249).

4. However, this debt primarily went to finance buyouts and speculation rather than job-creating production, again contributing to the dependence on lenders and the weakened bargaining power of most workers (Crotty 1993). "In 1984, for instance, American business accumulated a staggering $140 billion in new debt that was devoted solely to finance corporate mergers and take-overs. It did not build any new factories" (Greider 1987:658).
5. The high dollar particularly hurt the high-waged, heavily unionized manufacturing industries like auto makers by encouraging a shift in production to other countries (Greider 1987, citing testimony by Lee Iococca before the House Banking Committee, April 28, 1983).

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