

*Economists for Peace and Security, Bernard L. Schwartz Symposium:  
Inequality, Austerity, Jobs and Growth*

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"Inequality, Austerity, Jobs and Growth"

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WAGE **AND** RETIREMENT TIME INEQUALITY FRONT  
AND CENTER TO RESTORE STABILITY AND JUSTICE

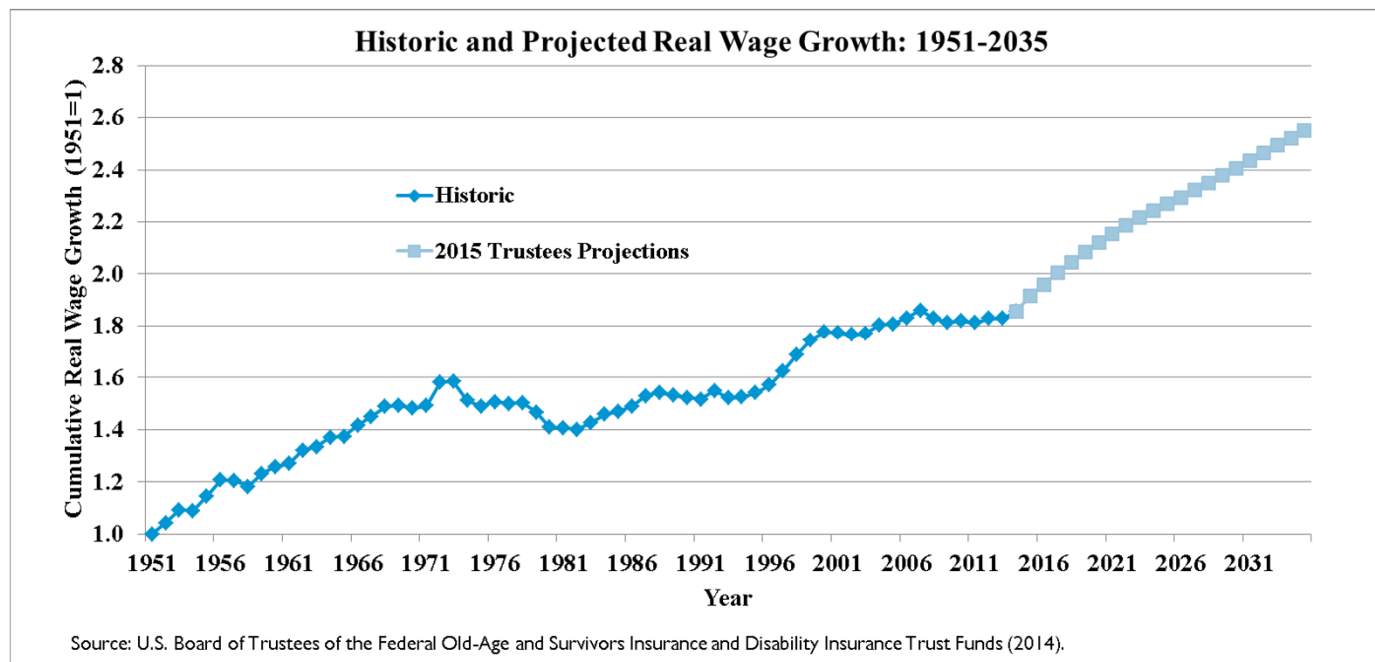
THE NEW SCHOOL

SCHWARTZ CENTER  
FOR ECONOMIC  
POLICY ANALYSIS

## My Case: Social Security is good for workers, old workers, and good for the economy

- Doing nothing to solve Social Security's long-term financing problems will reduce retirement incomes and worse for low income.
- If work more in US, seniors will flood labor markets. Gains to retirement time equity, morbidity, and mortality could be reversed.
- Need to raise FICA and Taxable Maximum to tax all earnings like Medicare.
- As pensions increasingly shift from DB to DC retirement savings and become financialized, these programs become pro-cyclical and macro-destabilizing.

Stagnant real wages between 1971-1996, rapid rise in real wages between 1996-2000, slow growth 2001-2013 (from Karen Smith at Urban)

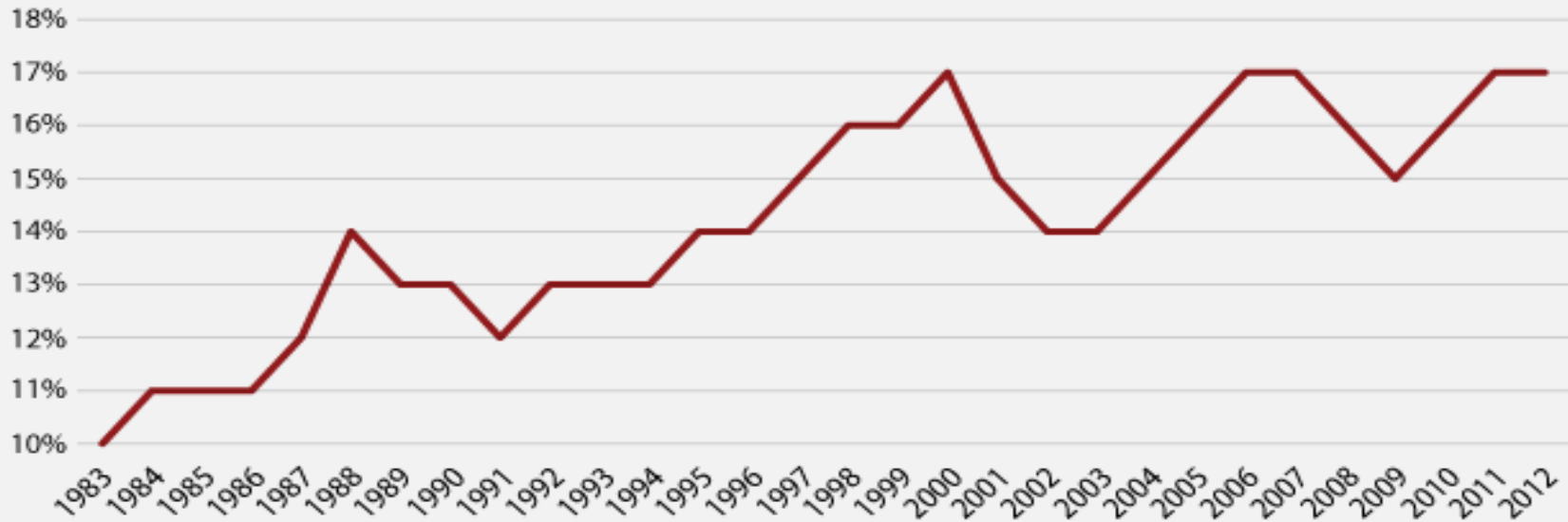


SOURCE: CAP Report: <https://www.americanprogress.org/issues/economy/report/2015/02/10/106373/the-effect-of-rising-inequality-on-social-security>

FIGURE 1

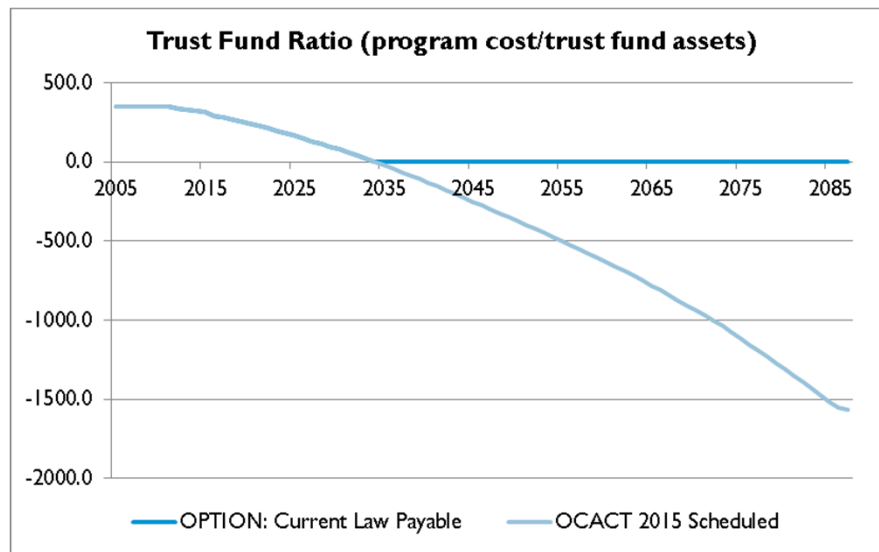
### As inequality has risen, an increasing share of earnings has escaped Social Security taxation

Between 1983 and 2012, the share of earnings that escaped taxation rose 7 percentage points

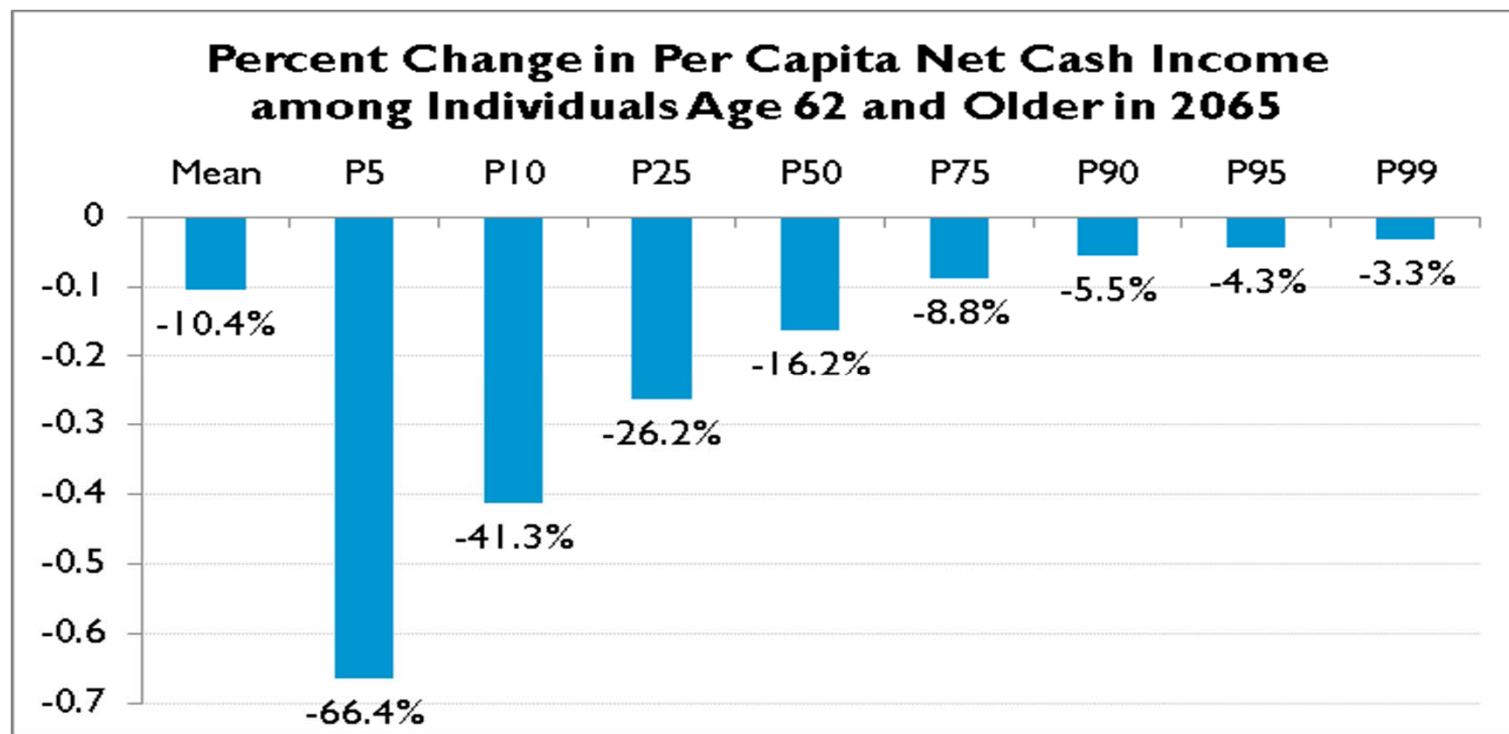


Source: Social Security Administration, "Annual Statistical Supplement: Table 4.B1—Number of workers with taxable earnings, amount of earnings, and Social Security numbers issued, selected years 1937–2012" (2013), available at <http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2013/4b.pdf>.

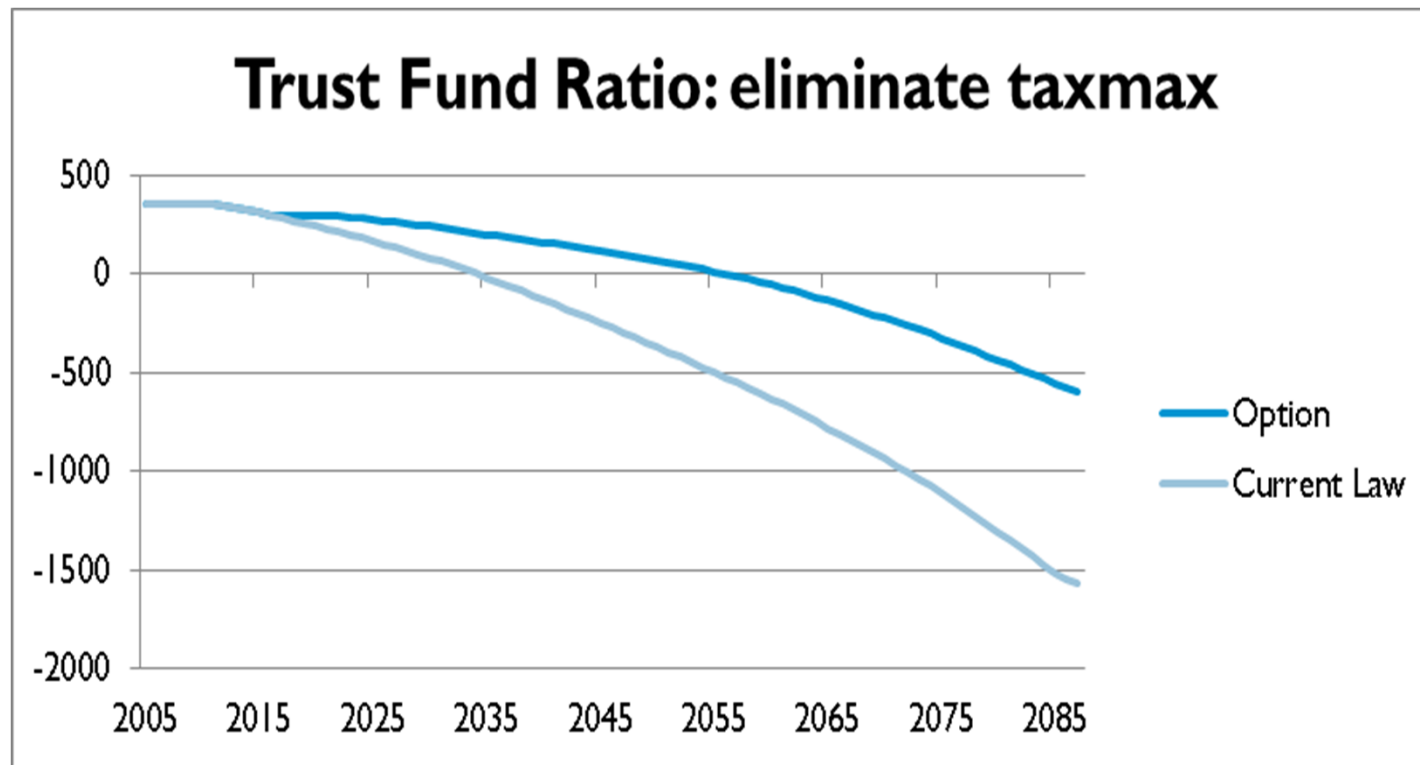
Social Security faces a long-term financial imbalance. OASDI trust fund will be able to pay only 79 percent.



If we don't do anything, Social Security income will be reduced in 2065 and the lowest income earners will be hardest hit.

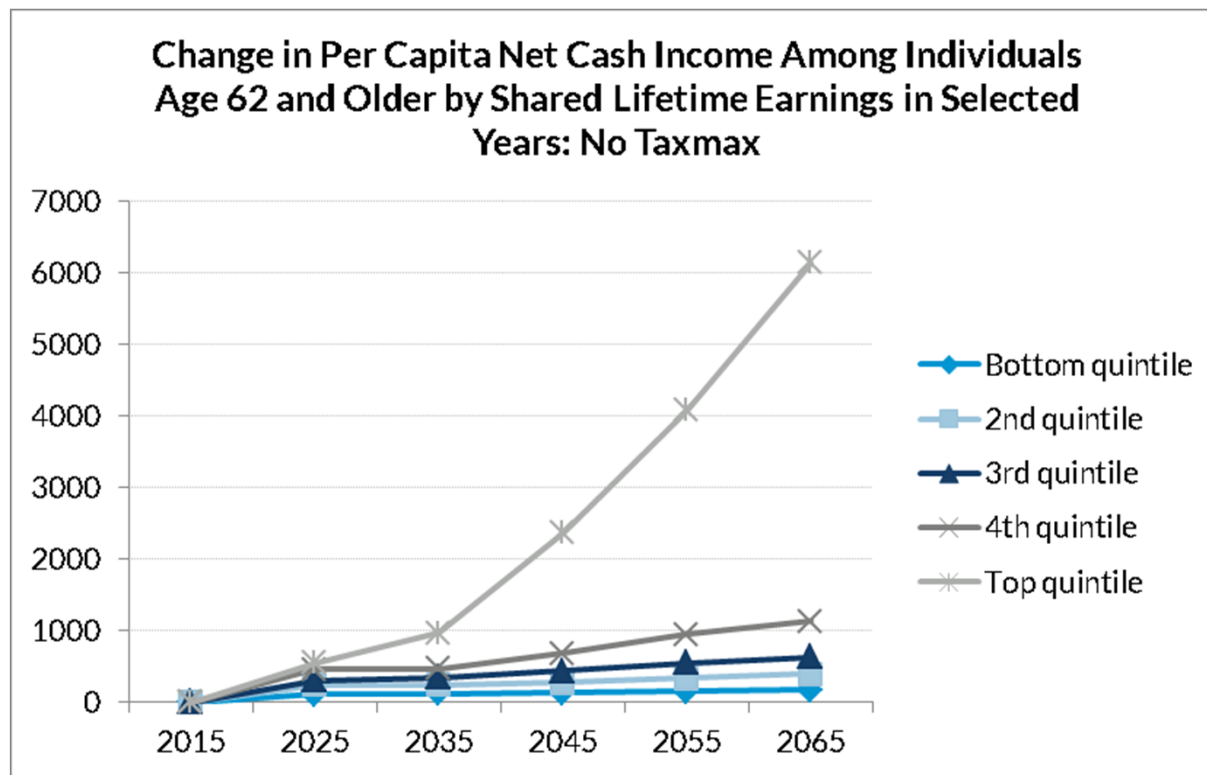


Immediately eliminate the earnings cap, which will add 21 years to solvency if you raise benefits for all workers.



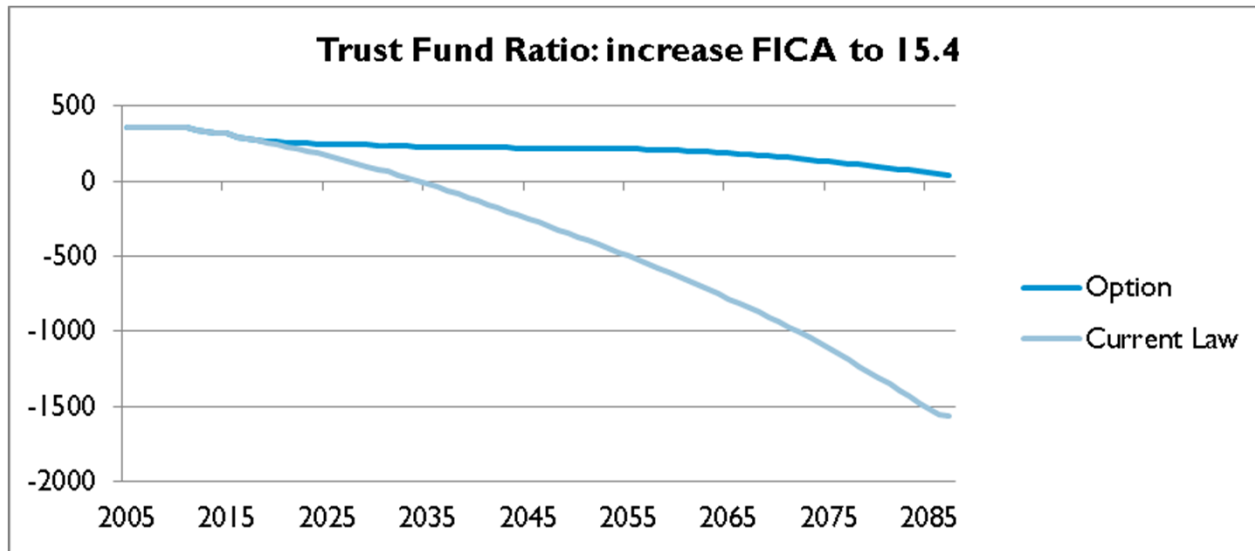
# Immediately eliminate the taxable maximum, which is now \$118,500.

(increases net income for all lifetime earnings groups)





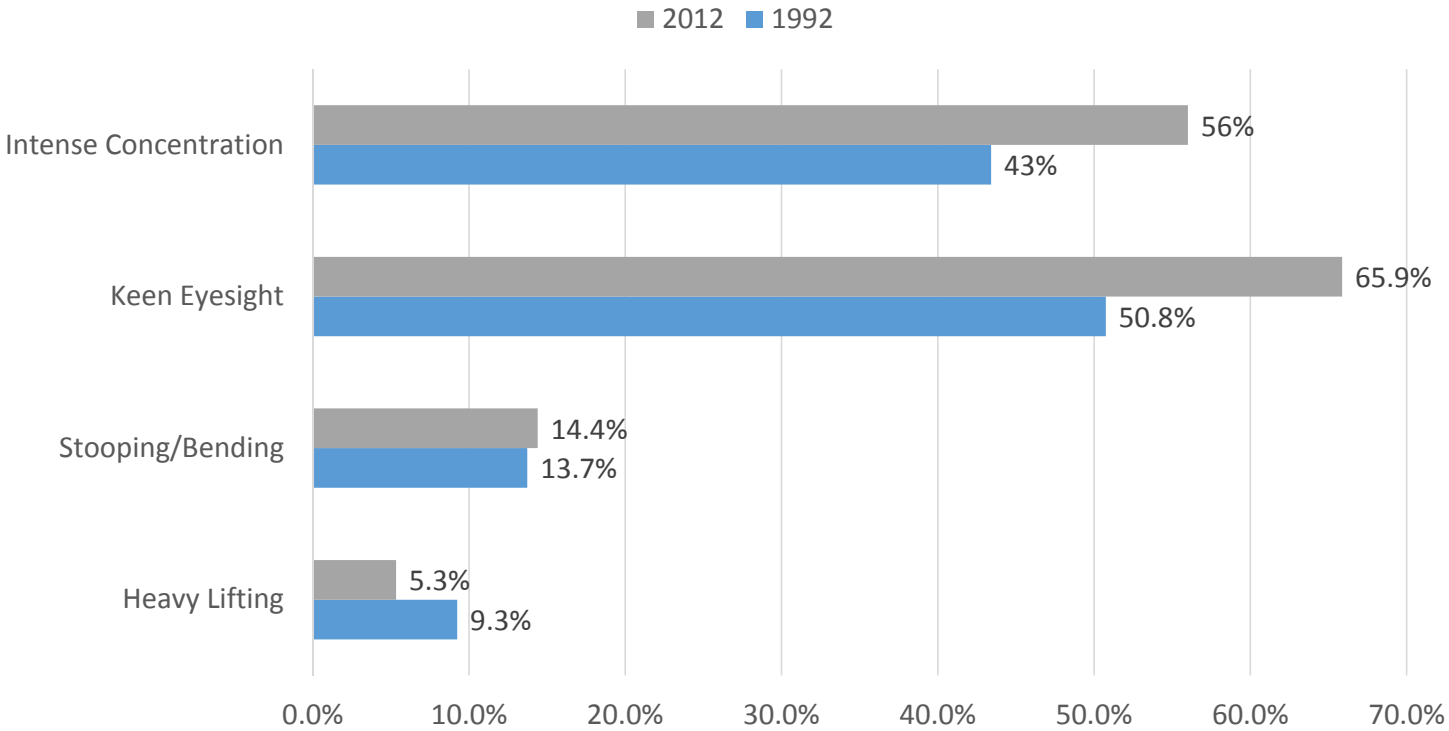
Increase the FICA tax from 12.4 to 15.4 over 10 years. This makes Social Security solvent through 2087, but reduces income at the top quintile – more taxes.



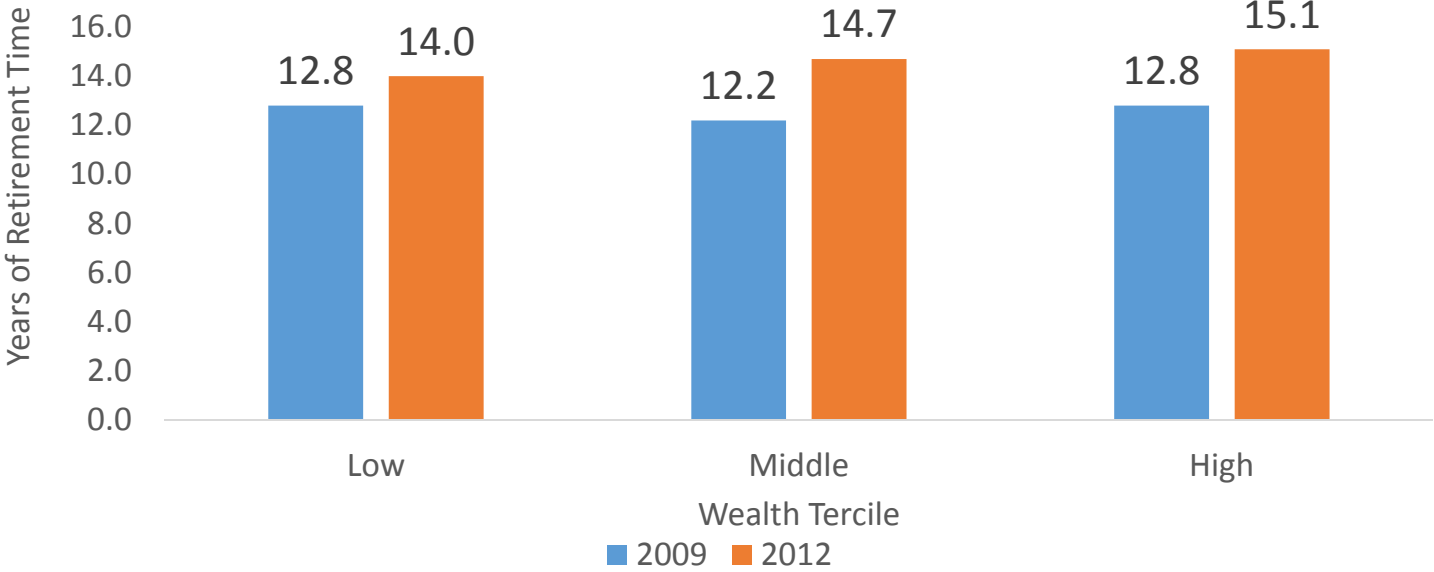
Cutting Social Security benefits is bad, but  
“Grand Bargain” vocabulary is prevalent.

- Growing inequality if work/health gradient and worklife/longevity gradient.

# Workers aged 62-65 Experience Worsening Working Conditions (1992 – 2012)



If benefits are cut, we will reverse the equity we forgot to celebrate.



Source: Health and Retirement Study (HRS) 2010, 2012

# If benefits are cut, we will reverse the stabilization we forgot to celebrate.

Net Impact of an Increase in the Output Gap (from Ghilarducci, Saad-Lessler 2015)

	Levels	
Social Security	-.07%	Counter
401(k)	.03%	Pro-cyclical
Unemployment Insurance	-.07%	Counter
Disability Insurance	-.01%	Counter
Medicare	-.01%	Counter
Federal Income Tax Collection	- 45%	Strongly Counter

# Conclusions

- Doing nothing to solve Social Security's long-term financing problems will reduce retirement incomes and worse for low income.
- Seniors will flood labor markets, and gains to retirement time equity, morbidity, and mortality could be reversed.
- Need to raise the FICA and Taxable Maximum to tax all earnings like Medicare.
- As pensions increasingly shift from DB to DC retirement savings and become financialized, these programs became pro-cyclical and macro-destabilizing.