

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

November 18, 2015
Hyatt Regency Capitol Hill, Washington DC

"Inequality, Austerity, Jobs and Growth"

Teresa Ghilarducci, The New School for Social Research

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

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

- Doing nothing to solve Social Security long-term financing problems will reduce retirement incomes and worse for low income.
- If work more in US seniors will flood labor markets and 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 then these programs become procyclical 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)

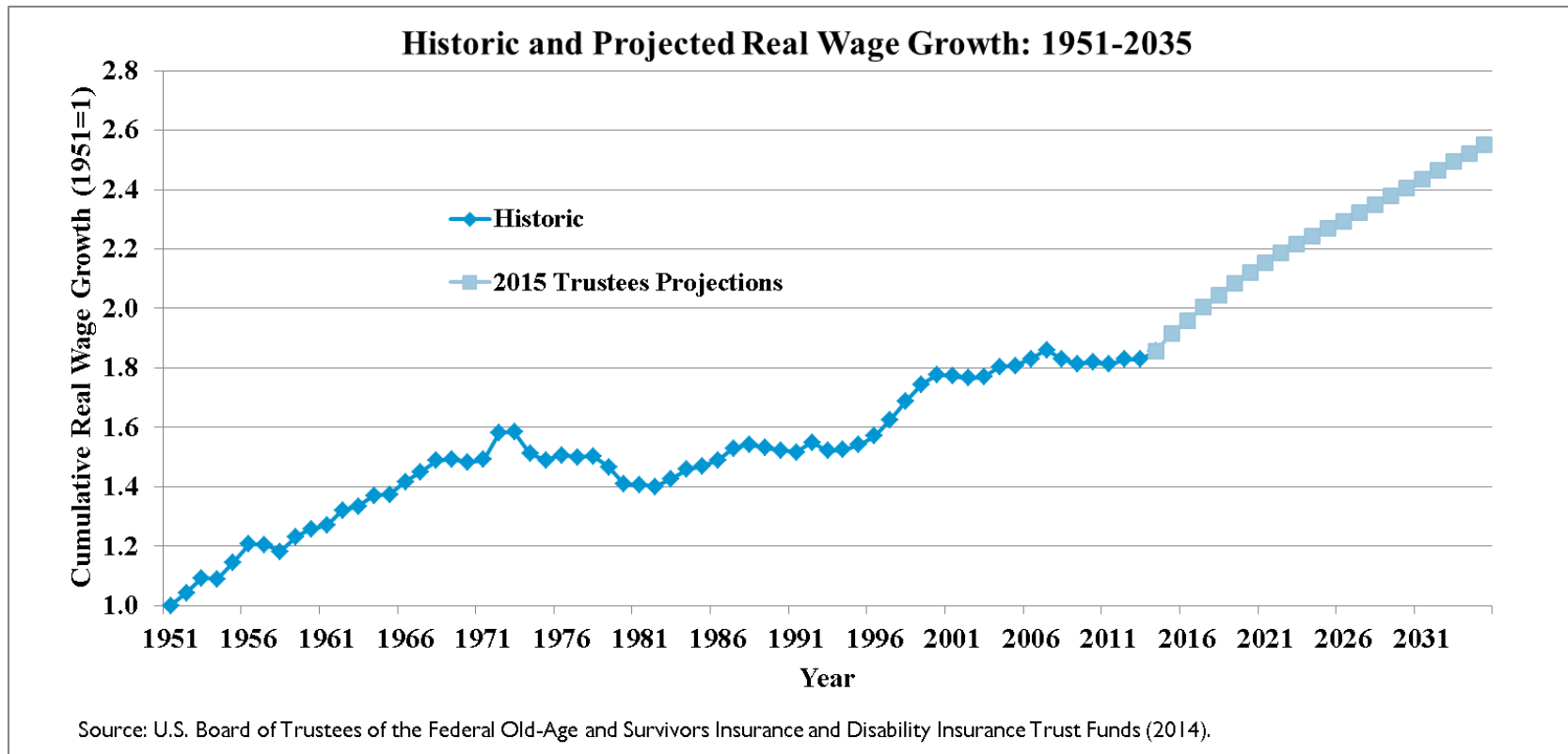
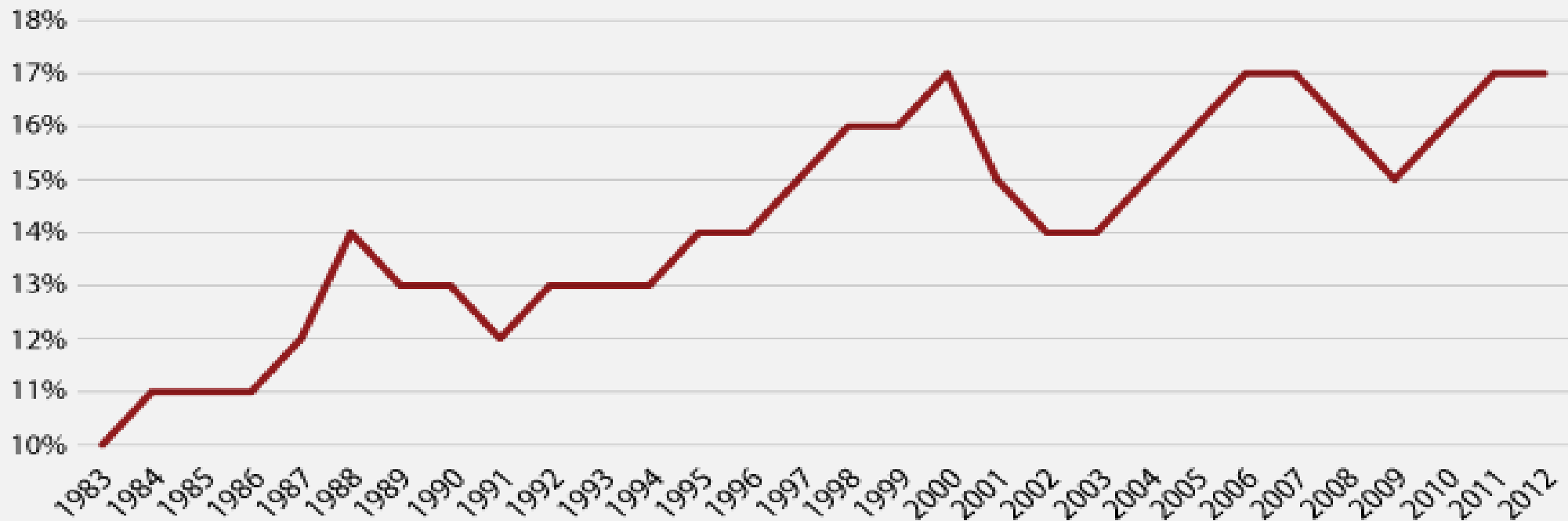


FIGURE 1

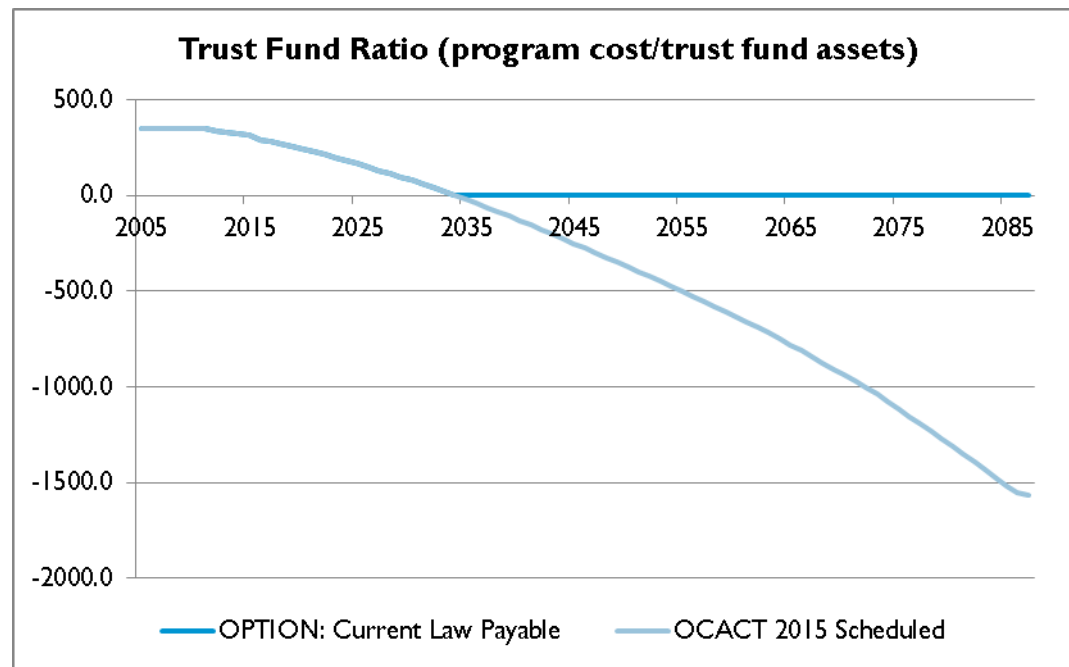
As inequality has risen, an increasing share of earnings has escaped Social Security taxation

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

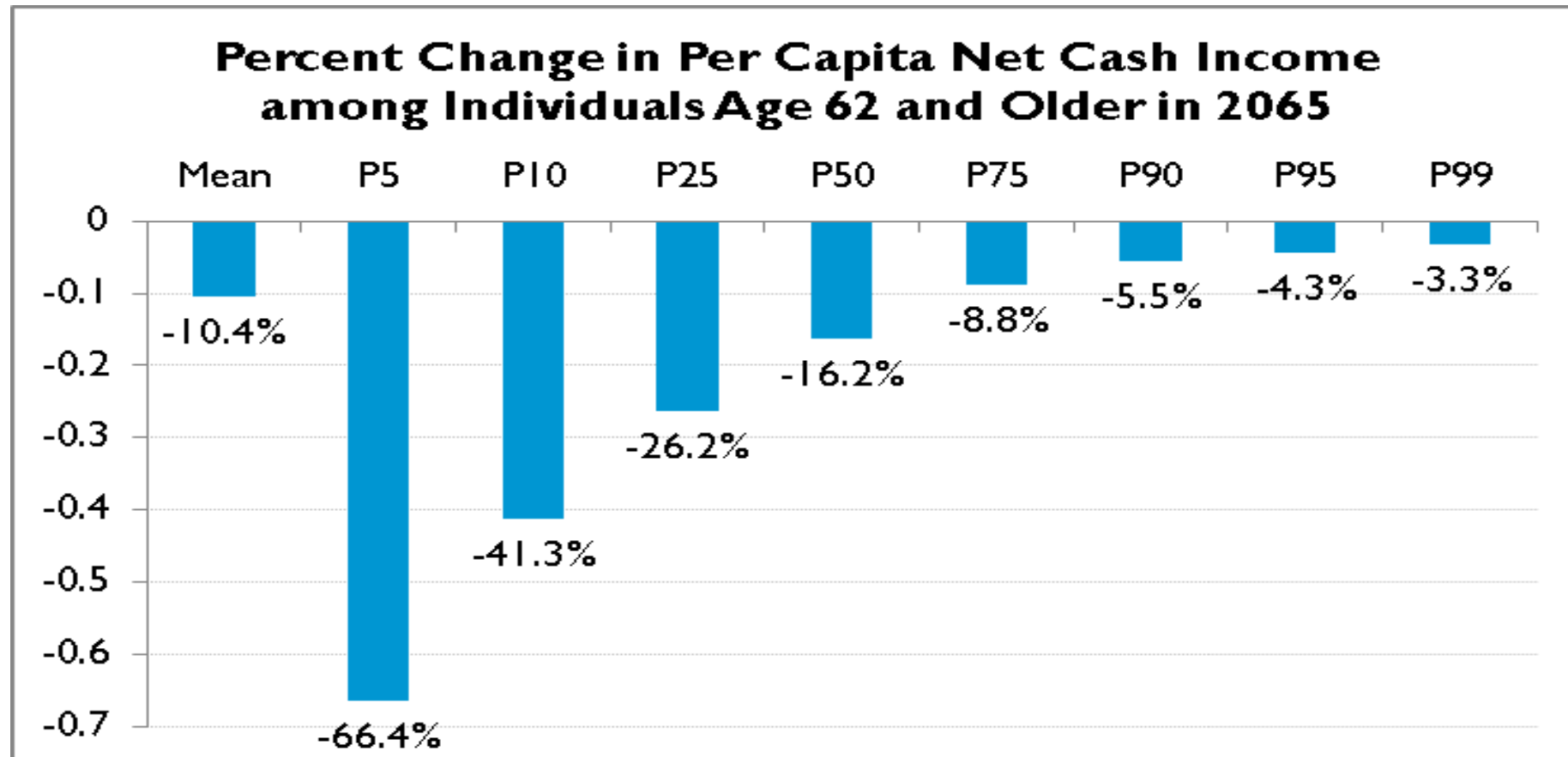


Source: Social Security Administration, "Annual Statistical Supplement: Table 4.B1—Number of workers with taxable earnings, amount of earnings, and Social Security numbers issued, selected years 1937–2012" (2013), available at <http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2013/4b.pdf>.

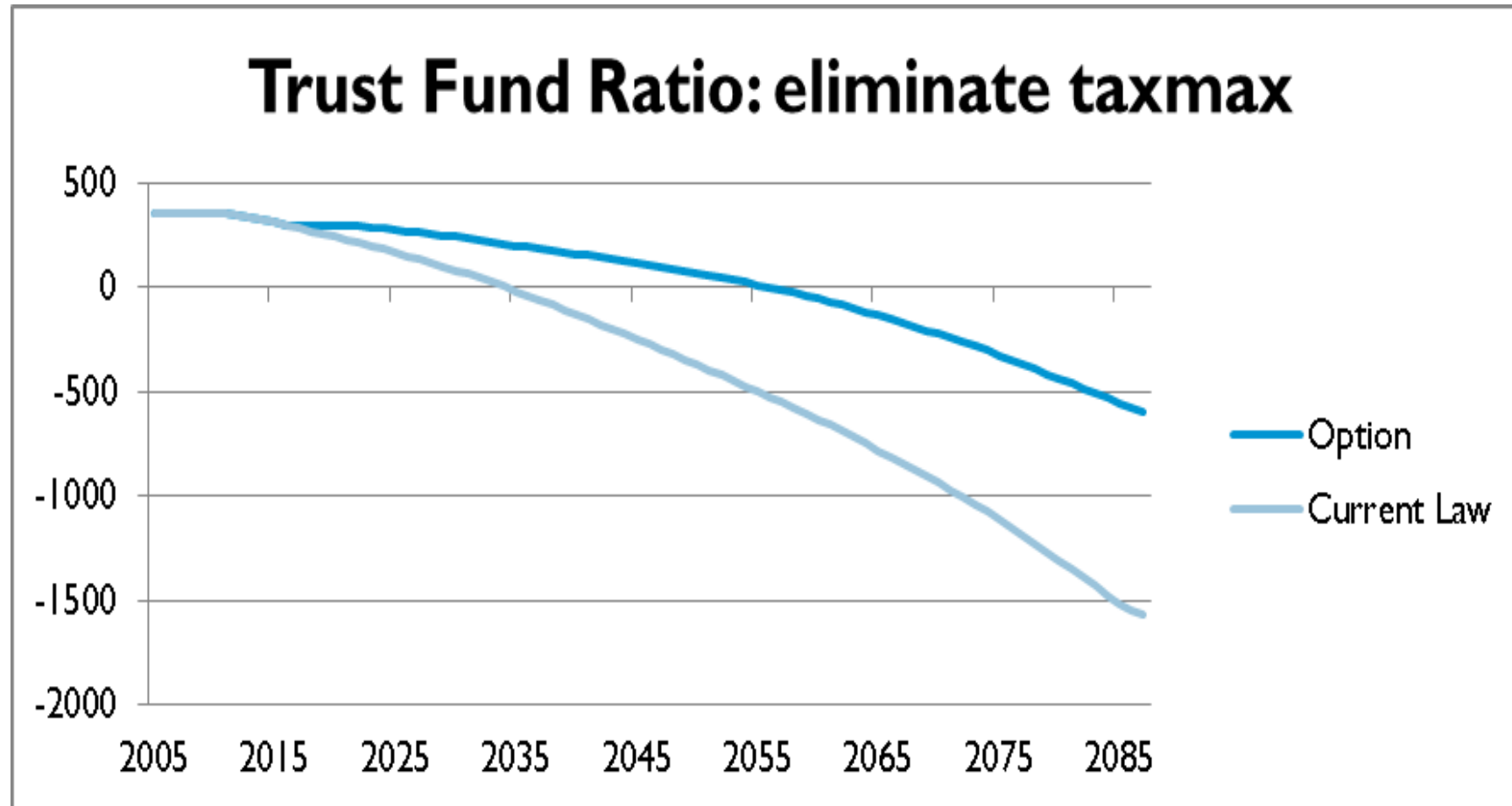
Social Security faces long-term financial imbalance. OASDI trust fund will be able to pay only 79 percent



If we don't do anything SS income is reduced in 2065 and the lowest income is hardest hit

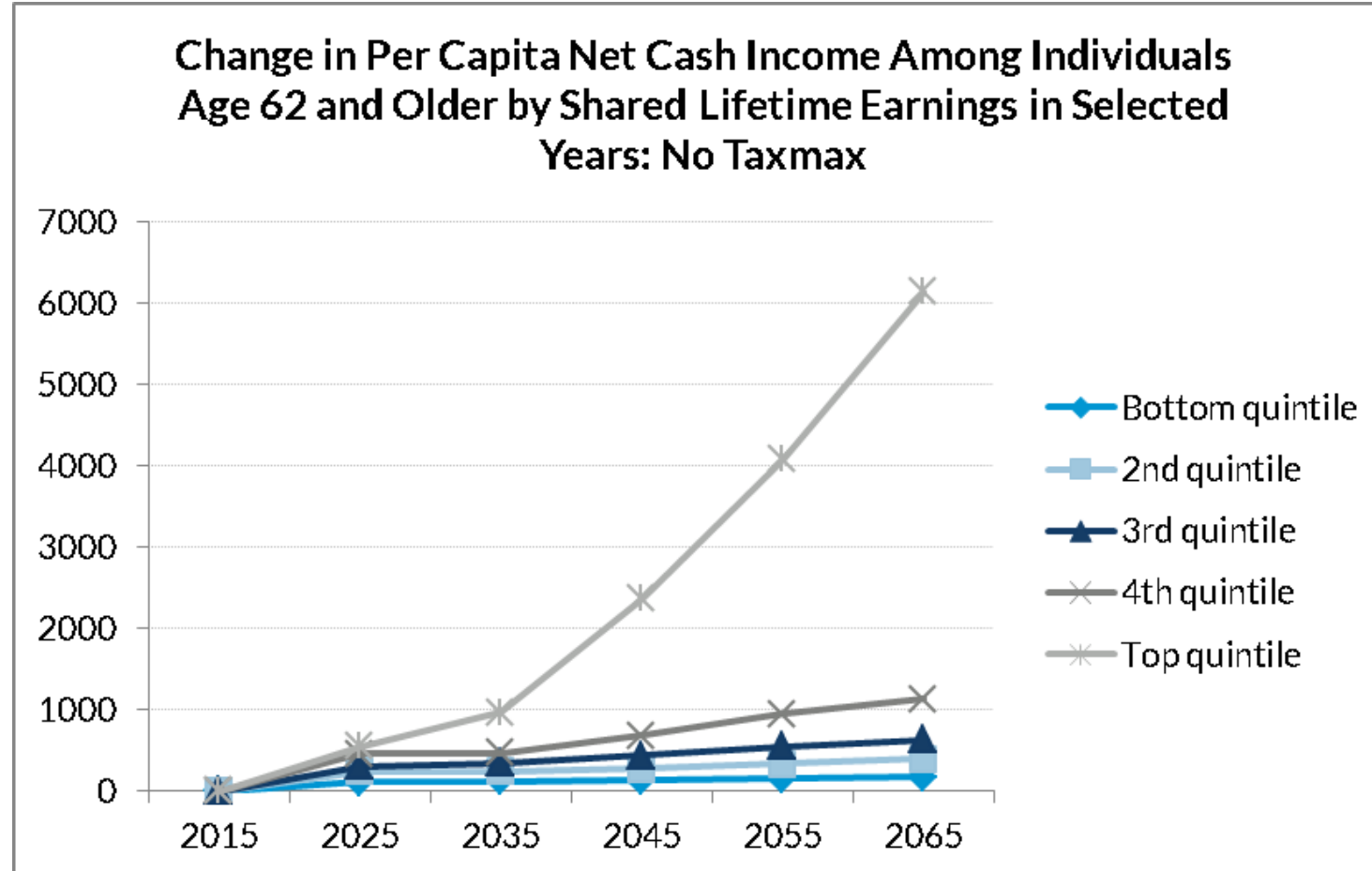


Immediately eliminate the earnings cap
(adds 21 years to solvency if you raise
benefits for all workers)

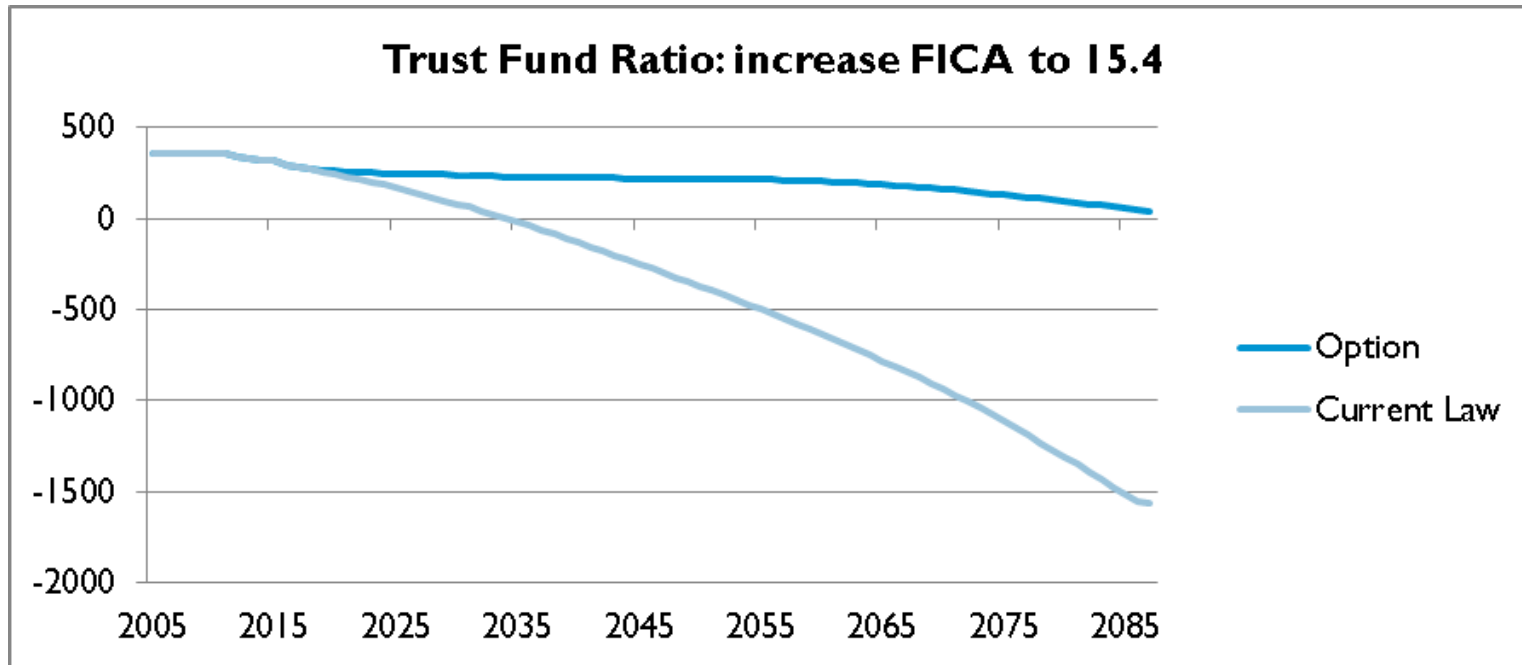


Immediately eliminate the taxable maximum (now \$118,500)

(increases net income for all lifetime earnings groups)



Increase the FICA tax from 12.4 to 15.4 over 10 years (make Social Security solvency through 2087) but reduces income at the top quintile – more taxes

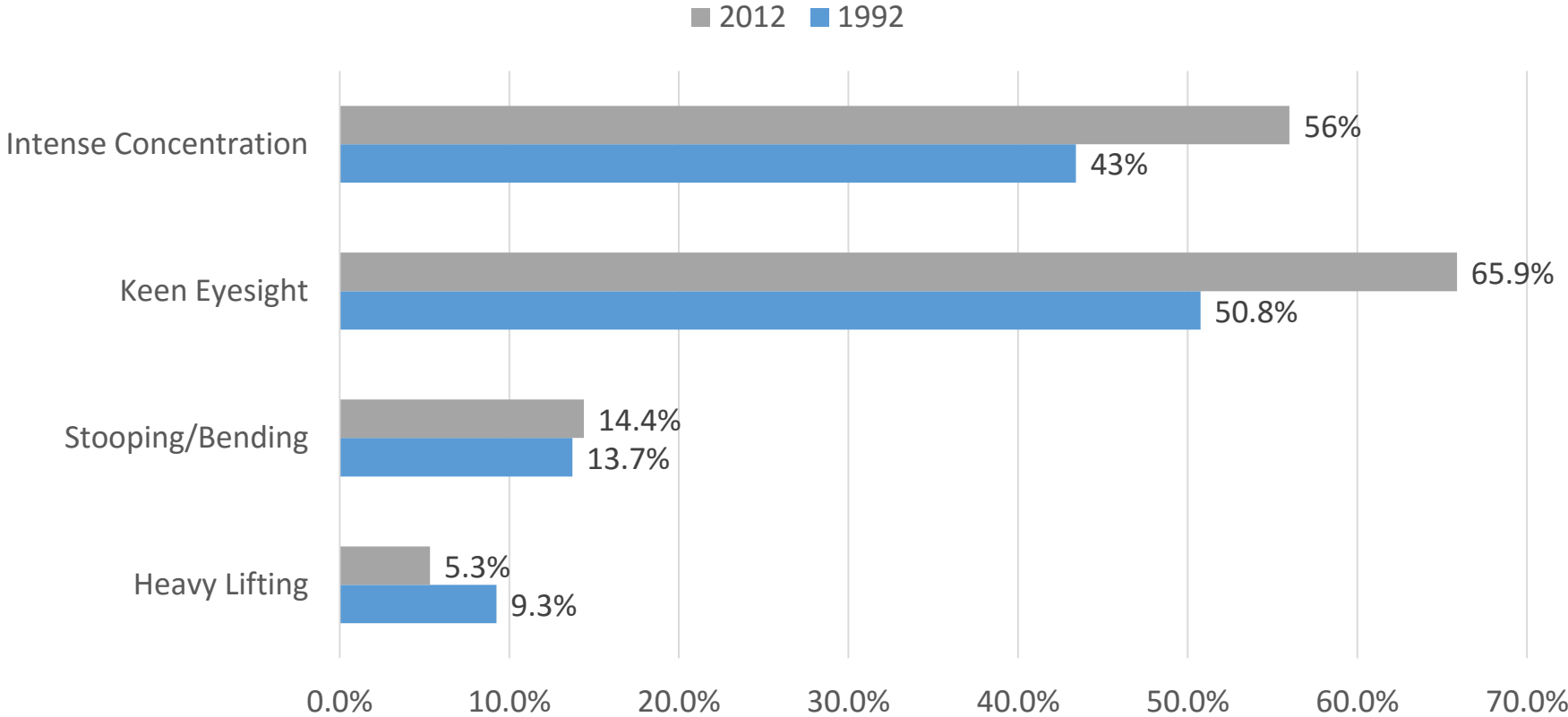


Cutting SS benefits is bad but “Grand Bargain” vocabulary is prevalent

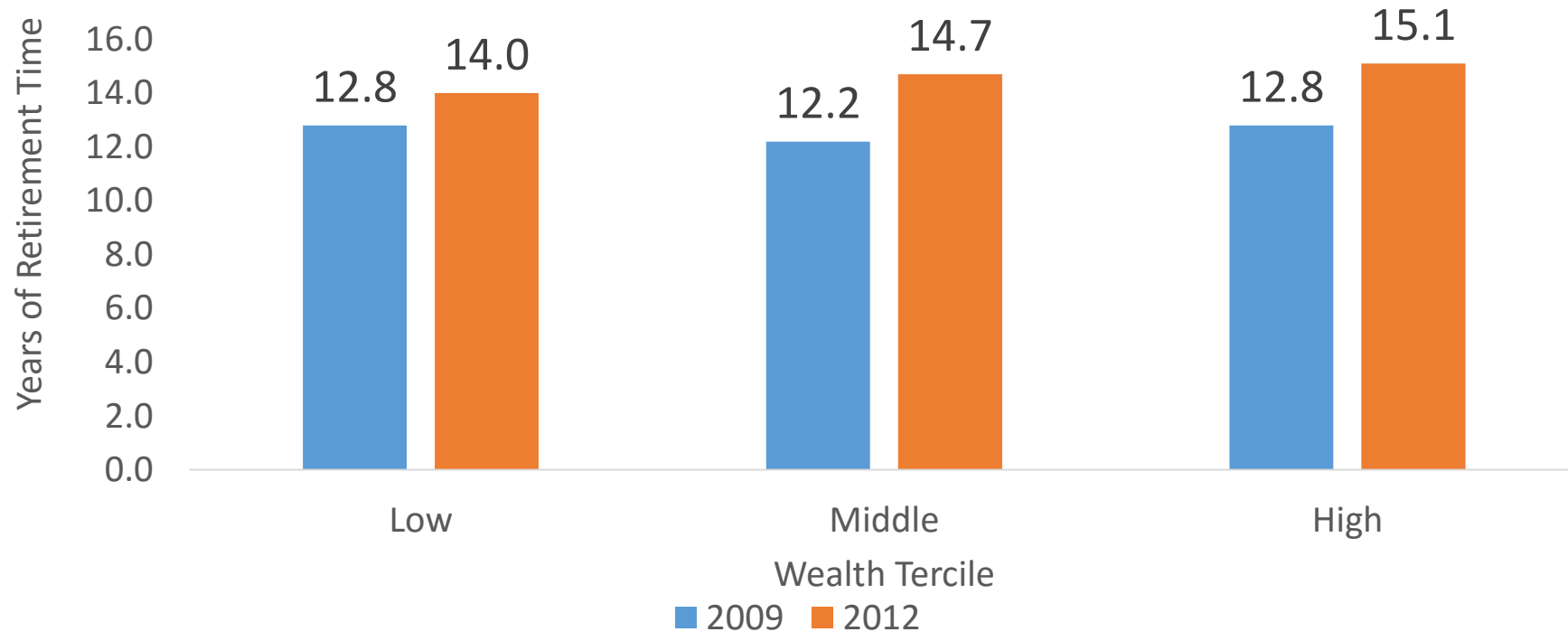
- Growing inequality if work/health gradient and worklife/longevity gradient

Workers aged 62-65 Have Worsening Conditions (1992 – 2012)

Workers Aged 62-65 Have Worsening Working Conditions (1992-2012)



If cut benefits we will reverse the equity we forgot to celebrate



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

If we cut benefits 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 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 FICA and Taxable Maximum to tax all earnings like Medicare.
- As pensions increasingly shift from DB to DC retirement savings and become financialized then these programs became procyclical and macro-destabilizing.