A Point of View on Income Inequality.

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Inequality—disparities in income, wealth, and health—is the overarching strategic theme of the policy work conducted by the National Academy of Social Insurance, which I have the honor of serving as its Chief Executive Officer.

Income inequality is one of the major trends that affects the future of work and the prospects of economic security for millions of today's workers and future retirees in the United States. Structural inequities pose critical risks to the ability of many to work as long as they wish and threaten their freedom to choose how they age.

The COVID-19 pandemic and the recession it has generated have exacerbated these risks. According to the Federal Reserve, which has articulated a policy goal of "inclusive prosperity," lower-wage workers have been disproportionately affected by job losses, while just over half of Americans with savings accounts (including IRAs and 401(k) plans) invested in stocks have experienced substantial gains in these sources of future retirement income. (Source: Survey of Consumer Finances)

For today's older workers (i.e., age 50 and older)—especially those at the mid-to-lower end of the economic spectrum, workers of color, and people with disabilities—this means that many find themselves in jobs that make it difficult, if not impossible, to accumulate adequate sources of retirement income. The result portends a severe retirement crisis that will affect Americans of all ages, and the U.S. economy itself, due to longer life expectancies, decreased consumer spending, higher reliance on public benefits, and potential social disintegration and upheaval. Less inequality is associated with greater macroeconomic stability and more sustainable growth. The prospects of such a national crisis call for a candid, evidence-based re-examination of the social protection ecosystem to determine the extent to which new public policies are needed to address the root causes and consequences of widespread economic insecurity and growing inequality.

Definitions

There is some disagreement in policy circles over the use of certain terms that help define the problem to be solved. One of these is the difference between equality and equity. Put simply, equality typically means giving everyone the same thing (e.g., the same shoe), while equity is giving everyone what they need to succeed (e.g., a shoe that fits). In recent years, the latter has served as more of a guide in policy making, especially when it comes to addressing racial injustice. (For more on this topic, please visit **https://www.nasi.org/discussion/equity-equality-and-social-insurance/**.) Inequality is also viewed as both a cause and a consequence of economic insecurity and poverty.

The Evidence

Inequality is measured by the Gini coefficient, which is a world-wide summary index. The higher the index, which ranges from zero to one, the greater a nation's inequality. Today, the Gini coefficient for the U.S. is 0.48, one of the highest in the world. Between 1977 and 1992, the Gini coefficient in the U.S. rose by 4.5 percentage points. It has increased further by another 5 percentage points since 1992. In short, inequality in the U.S. has risen significantly in recent decades and is at a level considered to be extreme.

One dimension of inequality is vertical. According to the Pew Research Center, over the past 50 years, the highest-earning 20 percent of U.S. households have had a steadily rising share of U.S. income. The top 1 percent receives close to one-fifth of total gross income. Overall, 61 percent of Americans agree that there is too much economic inequality in the U.S. (Schaeffer, 2020)

Real wages for low-to-moderate income workers in the U.S. have been stagnating since the mid-1970s, due to a host of interrelated factors, including globalization, automation, and the decline of manufacturing. As a result, their standards of living have declined, which has caused significant physical and mental health deterioration. This decline has also contributed to severe political polarization. This trend, especially as it affects those without college degrees, has been documented in vivid detail by Anne Case and Angus Deaton in *Deaths of Despair and the Future of Capitalism.*

Another dimension of inequality is horizontal. For example, there are life-cycle variations in income. There is also in the U.S. significant intergenerational inequality. Embedded in the "American Dream" is the expectation that future generations will be better off than previous ones and experience greater upward mobility. This does not appear to be likely for the largest generation in U.S. history—80 million Millennials born between 1981 and 1997, many of whom work in non-standard employment arrangements, and most of whom will not have traditional pensions to help finance their future retirements.

Potential Policy Options

A major factor in reducing inequality in the U.S. has been the role of government redistributive transfers, especially Social Security, which have contributed greatly to the reduction in the percentage of older Americans living below the poverty line. For example, Social Security greatly reduces poverty for older Black people and counteracts the lower earnings, lower savings, and lower wealth that most Black retirees have.

Social Security was the cornerstone of Franklin D. Roosevelt's New Deal and its bold structural innovations. Social Security exemplifies a core egalitarian theme, i.e., "we are all in this together." It also serves to unify the economic interests of middle-class, working-class, and lower-income individuals.

In view of Social Security's extraordinary track record and its popularity as a universal social insurance program—with eligibility based on contributions from earnings from employment and benefit amounts indexed to inflation—it remains the most effective vehicle to reduce income inequality going forward.

Among the types of Social Security benefit improvements worth considering are the following:

- Restore the minimum benefit as a form of assured income for those with low lifetime earnings from employment.
- Introduce a bridge benefit for older workers in physically demanding jobs who are not yet eligible for an old age benefit and do not quality for disability benefits. (A proposal to do so was one of the winners of a 2019 Innovation Challenge conducted by the Academy in conjunction with AARP: **https://www.nasi.org/pressrelease/four-innovative-proposals-to-improve-retirement-security-and-social-securitys-adequacy-for-vulnerable-older-workers.**)
- Recognize caregiving in the calculation of Social Security's primary benefit.

In addition to Social Security benefit improvements, other policy options are:

- Increase Supplemental Security Income (SSI) benefits and update eligibility rules.
- Increase opportunities to save for retirement for workers, especially those who do not have access to an employer-sponsored retirement plan.
- Reduce the extent to which older workers face involuntary unemployment, part-time underemployment, and job precariousness, through reforms of the Unemployment Insurance system and strengthening of age discrimination enforcement.
- Improve access by older workers to public and private training programs, including upskilling and reskilling.

Conclusion

In 1939, in an essay "Economic Possibilities for Our Grandchildren," economist John Maynard Keynes envisioned a future of increased leisure for older people. That idealistic vision has been replaced in modern history with a more modest emphasis on providing at least some measure of dignity to those whose working years are curtailed.

With support from AARP, the National Academy of Social Insurance has formed a Task Force on Older Worker's Retirement Security, which is focusing on older workers with health limitations who are in physically demanding jobs. (**https://www.nasi.org/pressrelease/task-force-older-workers-launches-national-academy-social/**) The Task Force's final report, which will be issued in early 2022, will explore a series of policy options to reduce inequality and insecurity for this subgroup of the U.S. population.

Schaeffer, K. (2020) *6 facts about economic inequality in the U.S.* Pew Research Center. Retrieved from https://www.pewresearch.org/fact-tank/2020/02/07/6-facts-about-economic-inequality-in-the-u-s/.

Case, A. & Deaton, A. (2020) *Deaths of Despair and the Future of Capitalism.* Princeton University Press, second edition.