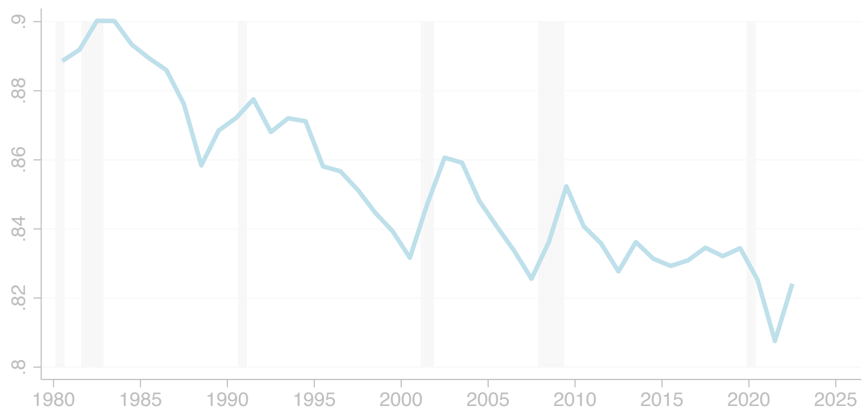
Earnings Inequality and Payroll Tax Revenue: Broader Considerations



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The Economics of Social Security

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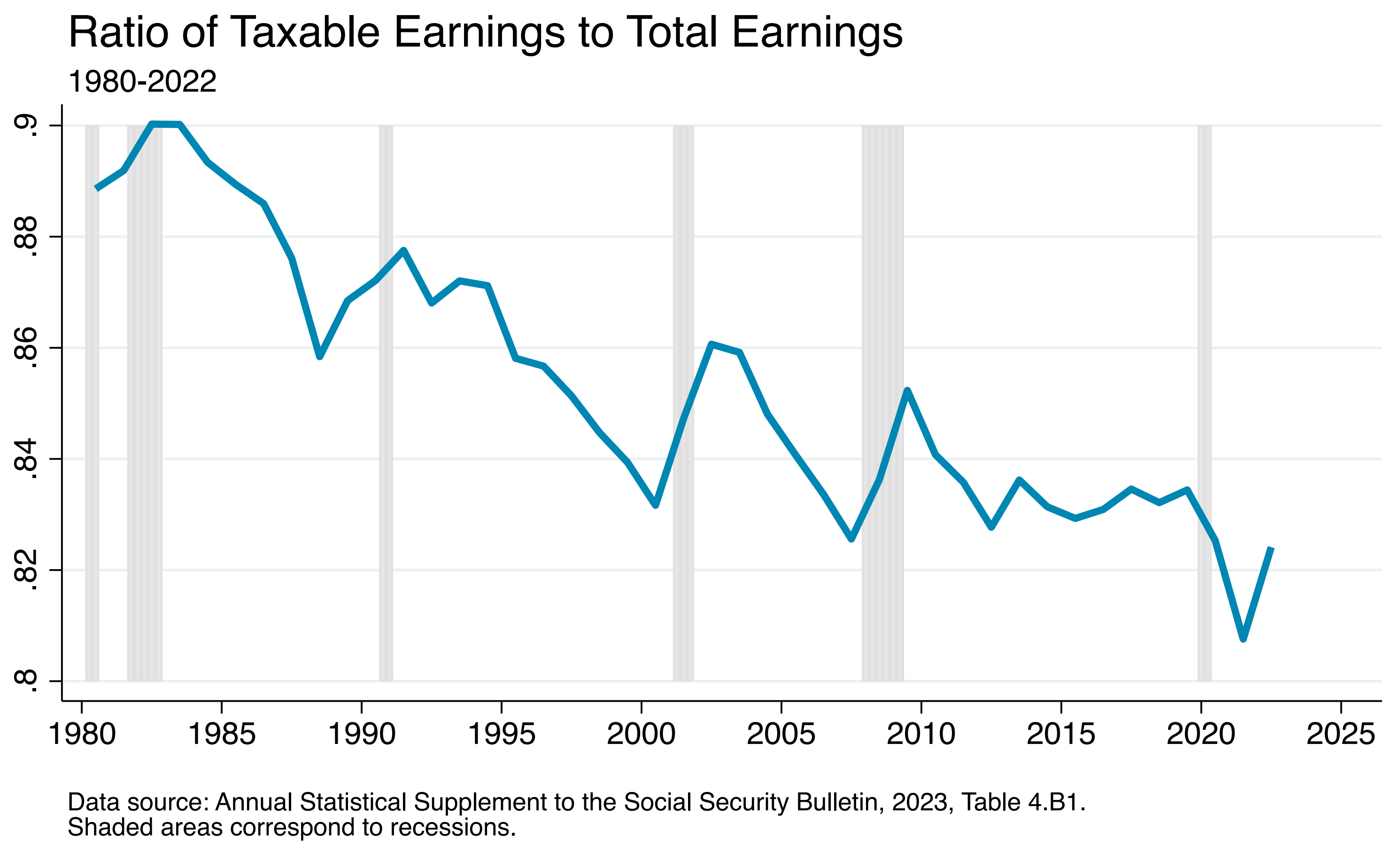
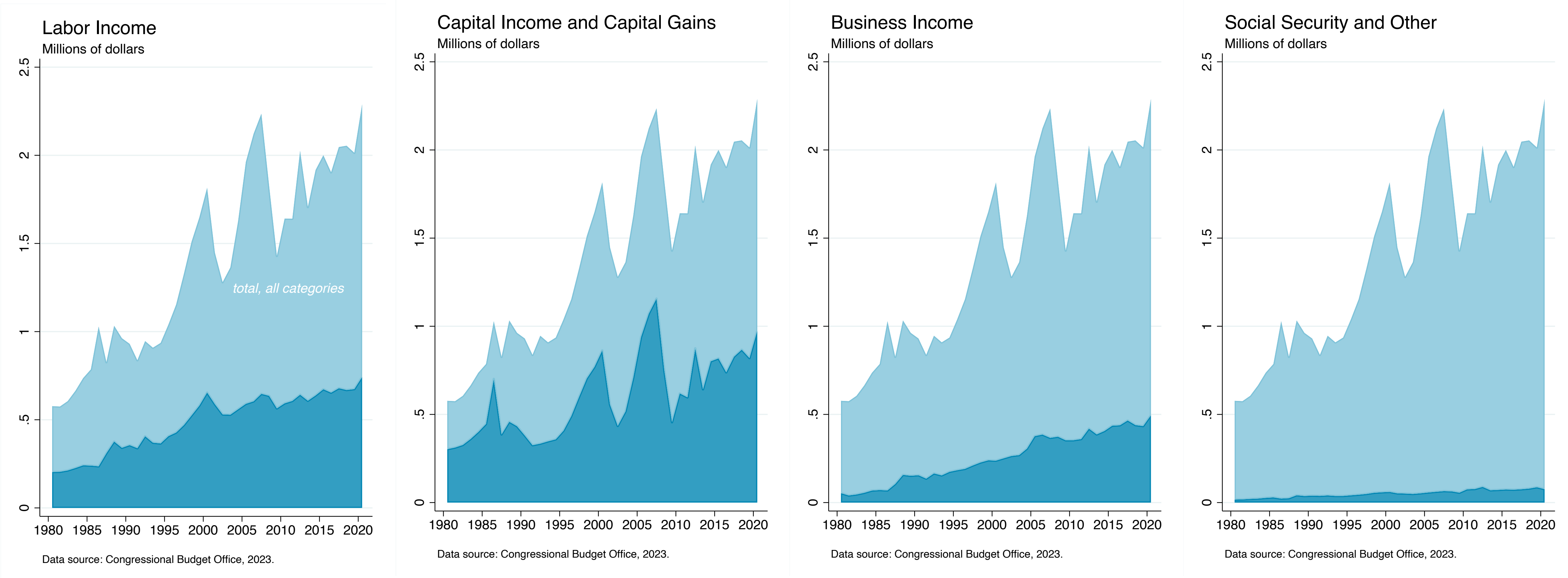
A striking picture!



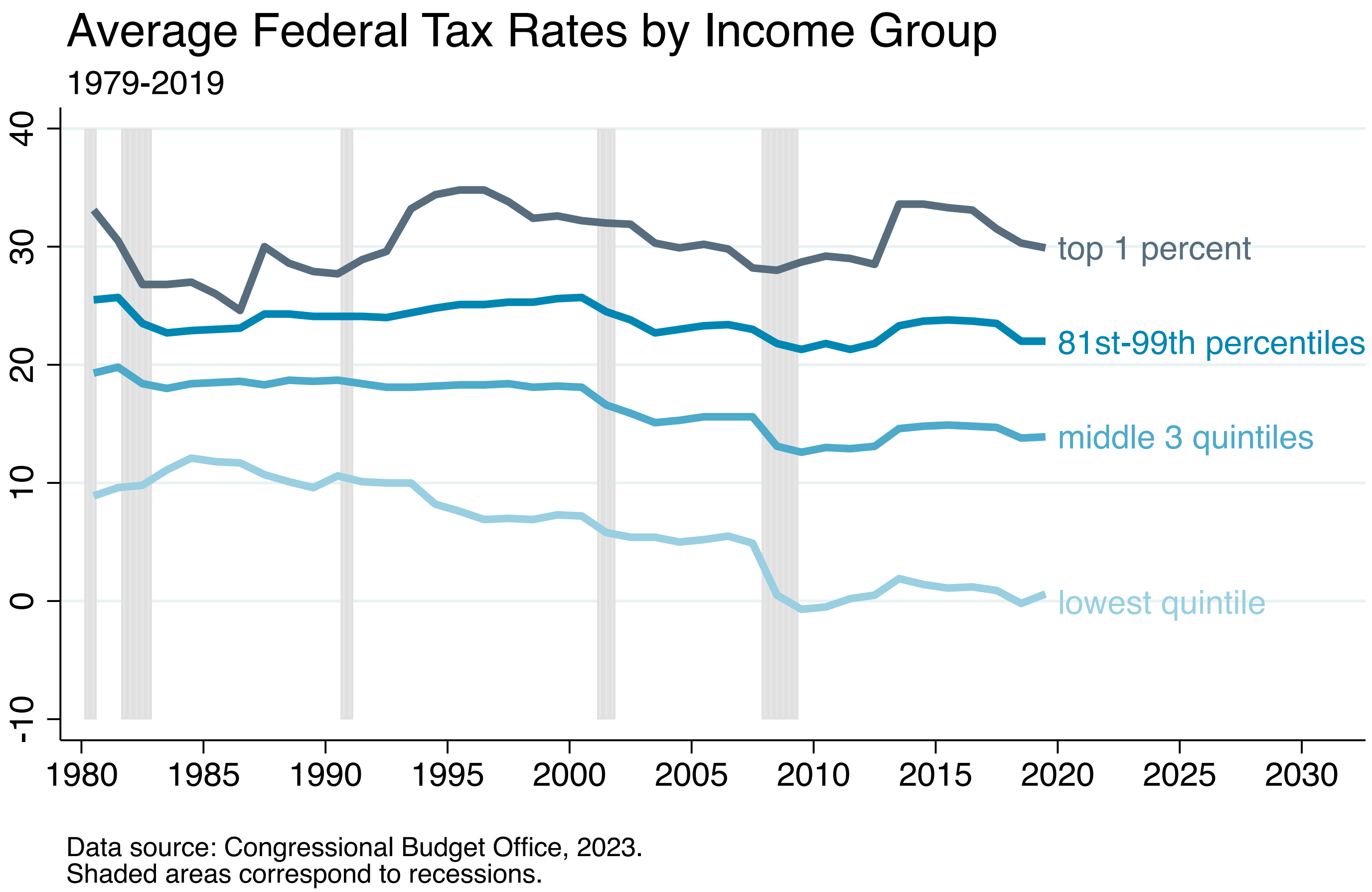
The trend is interesting, as is the cyclicality

Broader perspective on income inequality: non-labor income has increased faster than labor income at the top

Composition of Before-Tax-and-Transfer Income for Households in Top 1 Percent

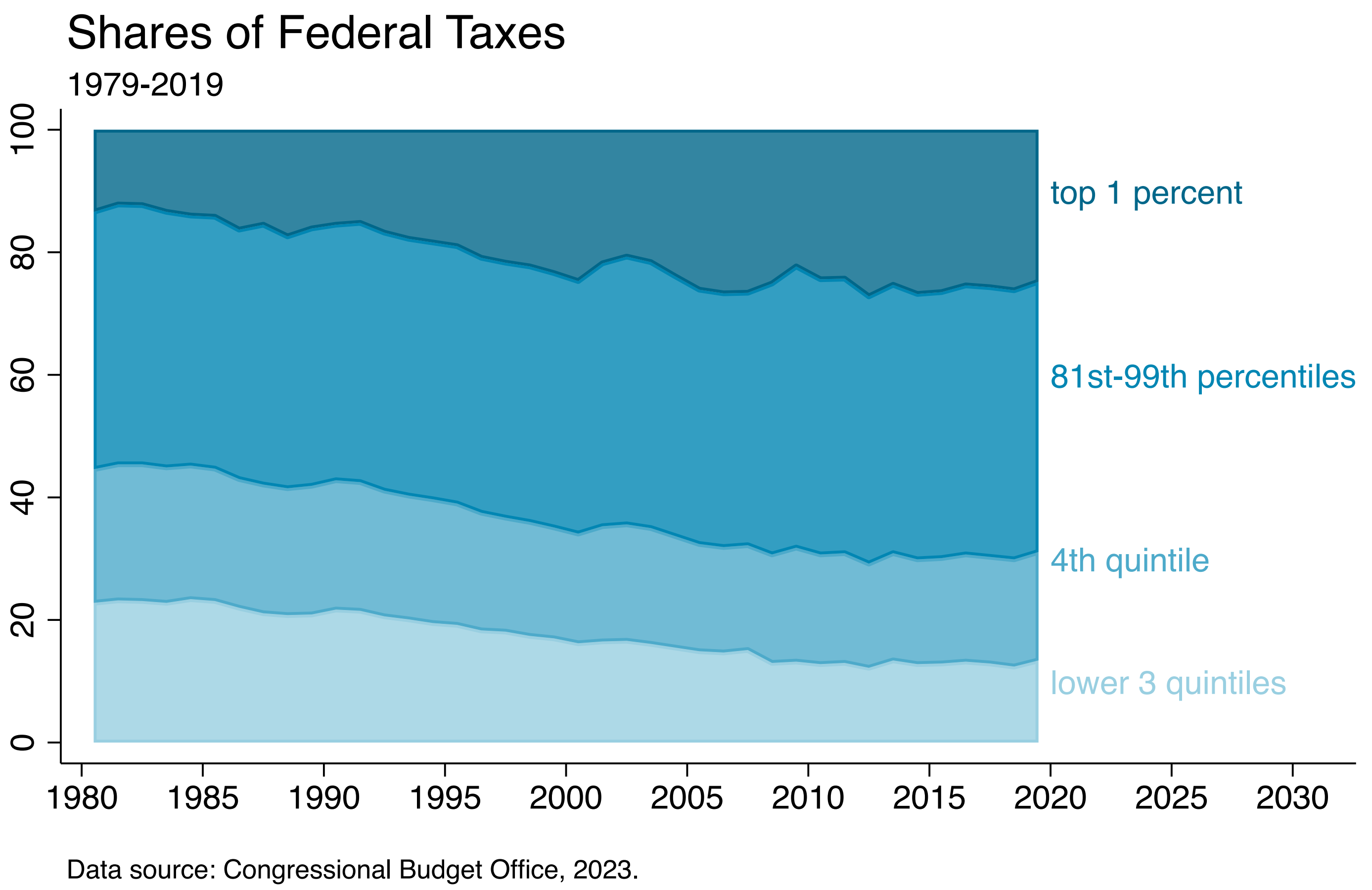


Broader perspective on taxes: the overall tax system has become somewhat more progressive



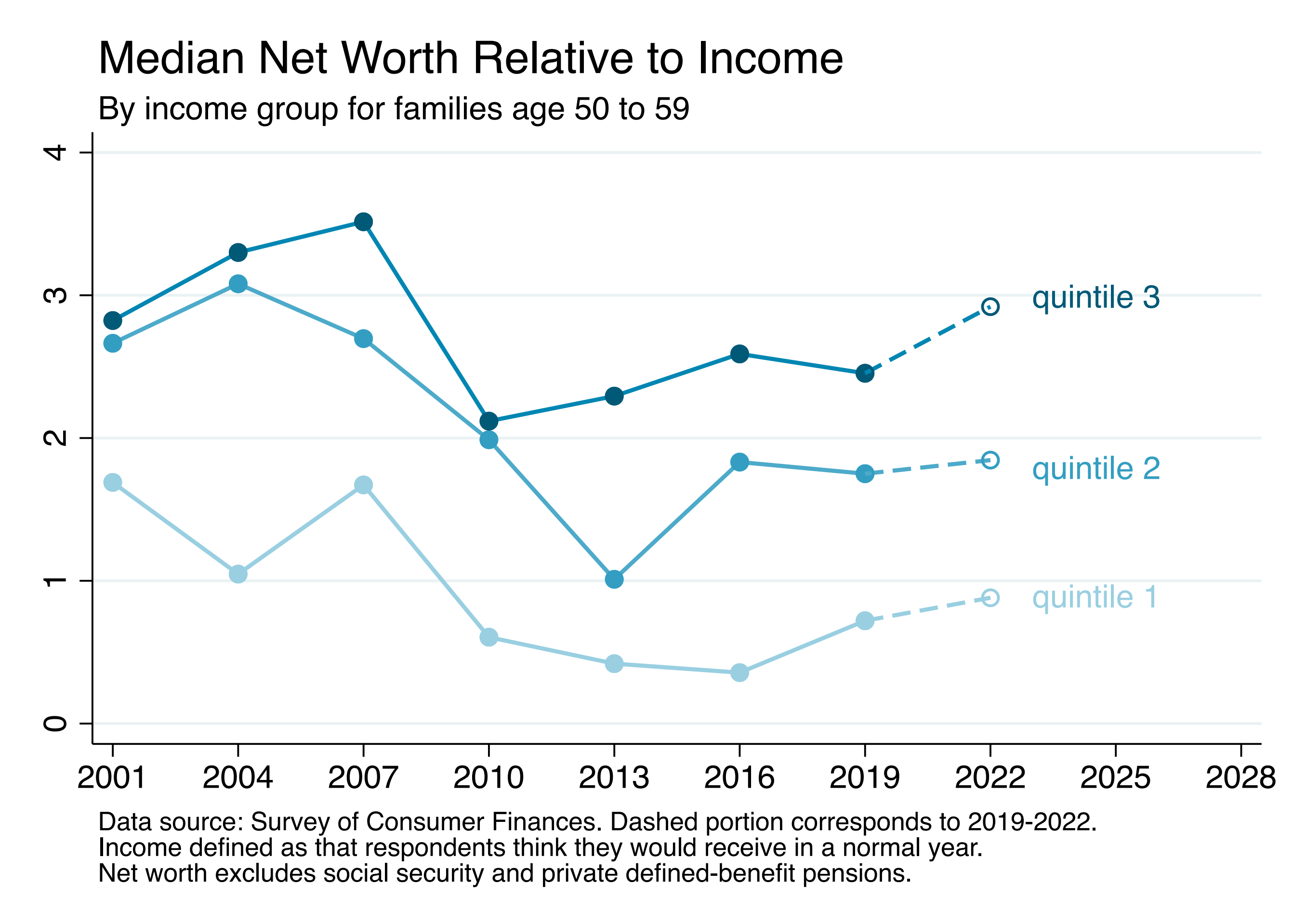
Average tax rates for the top 1 percent have increased *relative* to average tax rates lower in the distribution

Broader perspective on taxes: the top is shouldering somewhat more of the overall tax burden



The combination of rising inequality and changes in tax policy have raised the share of taxes paid by those higher in the distribution

Broader perspective on retirement security: a concerning pre-pandemic trend for families approaching retirement



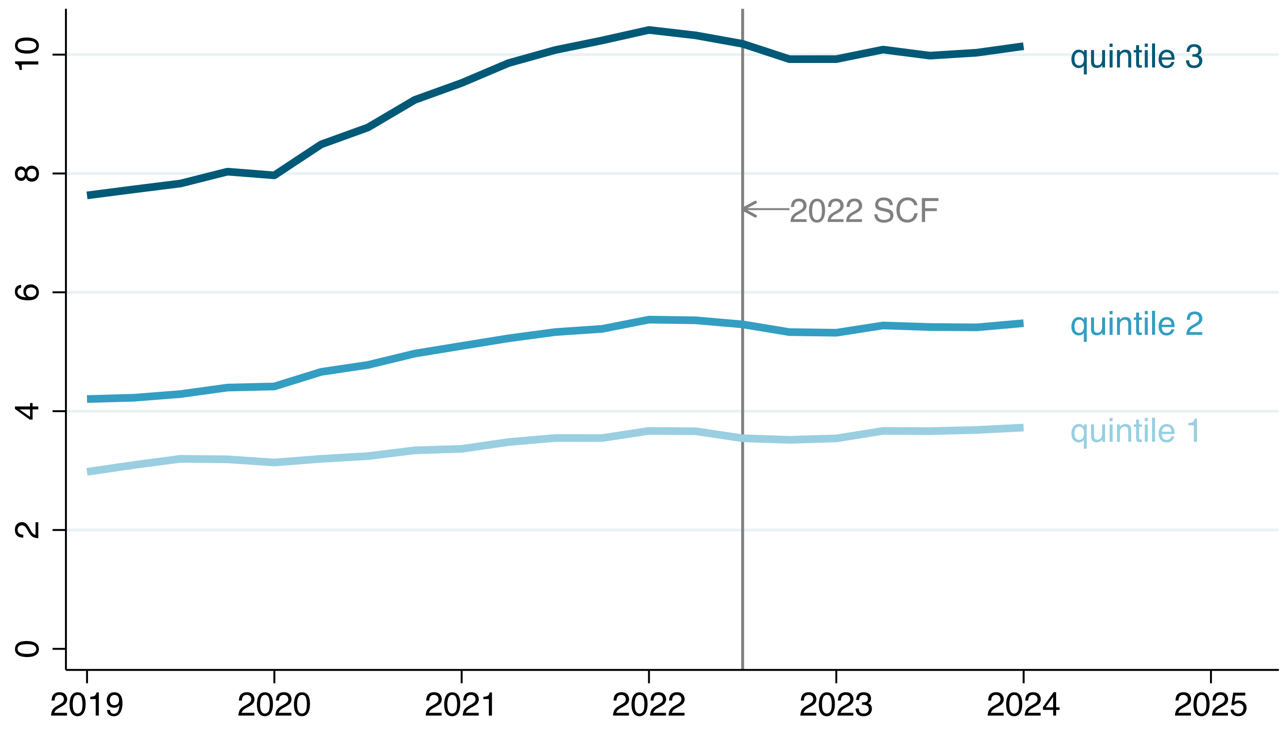
In the lower part of the income distribution, families approaching retirement were considerably worse off in 2019 relative to their counterparts in 2001

Some rebound occurred between 2019 and 2022

Broader perspective on retirement security: we don't know the degree to which the pandemic improvements will stick

Aggregate Net Worth by Income Group

Trillions of 2017 dollars



Data source: Distributional Financial Accounts. Last data point 2024:Q1.

The distributional financial accounts suggest non-pension wealth is little changed in real terms since the last wave of the Survey of Consumer Finances—despite strong labor markets

(And "little change" still leaves wealth relative to income down compared with previous cohorts)

Implications for future policy changes

Broader considerations reinforce the case for addressing Social Security solvency challenges through measures that disproportionately fall on high earners

- There's general resistance to redistribution, but people are more likely to accept it through a social insurance system
- Duggan (2023) recommends a one-time reset of the tax max such that 90% of earnings are covered and adding another bend-point in benefits
  - Given uncertainty about future, a formulaic reset of the tax max makes sense
  - Income shifting may be an issue
- But these options take us only about halfway back to solvency