HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT
79 John F Kennedy St.
Cambridge, MA 02138

December 11, 2019

Dear Congressman Larson,

We commend you on the Social Security 2100 Act which would maintain solvency for Social Security, increase retirement security, reduce the wealth gap and help address one of America's major economic growth challenges which is chronically insufficient aggregate demand.

U.S. Social Security benefits are relatively small compared to other countries and are not sufficient for the retirement security for many families. In a world where interest rates have fallen dramatically and what has been termed "secular stagnation," it is relatively more efficient to address these retirement saving shortfalls by expanding pay-as-you-go Social Security instead of expecting families to save increasing amounts at lower and lower returns. As a result, families would get higher returns from paying in to your proposed Social Security reforms than they could get from investing in safe financial assets, especially after accounting for the fact that administrative costs in Social Security are much smaller than in the private market.

Expanding Social Security benefits in a progressive matter would also effectively increase wealth in a progressive manner, reducing a form of inequality that has generated substantial concern lately.

In addition to its benefits for households, expanding the pay-as-you-go Social Security system would have the macroeconomic benefit of increasing aggregate demand while improving the long-run fiscal situation. The Social Security 2100 Act would reduce the severity of future business cycles and thus improve the long-run growth trajectory of the U.S. economy by taking some of the pressure off monetary policy and instead supporting the consumer spending.

Your legislation would tie the increase in Social Security benefits to a progressive increase in Federal insurance contributions (FICA). This would maintain Social Security's contributory principal and be a good deal for middle-class families. From an economic perspective, these contributions would not have the same incentive effects as a tax increase because of their direct tie to higher benefits.

We look forward to continuing to engage with you on your important work on this essential program.

Sincerely,

Jason Furman
Professor of the Practice of Economic Policy
Harvard University

Lawrence Summers
Charles W. Eliot University Professor and President Emeritus
Harvard University

cc: Senators Blumenthal and Van Hollen