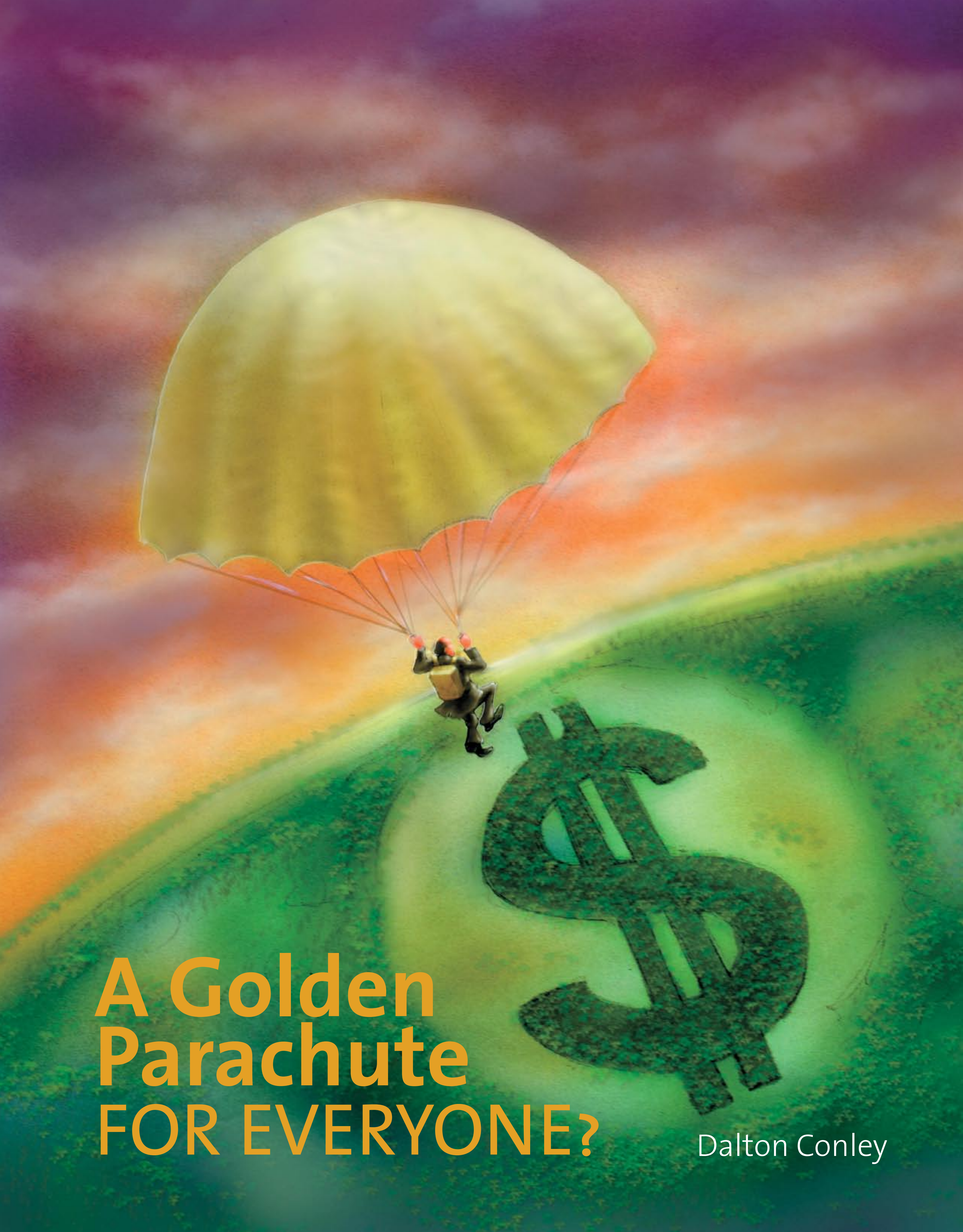

A Golden Parachute FOR EVERYONE?

Dalton Conley

In the standard, industrial society model of Keynesian economics, job growth drives the economy, and consumption, in turn, is what drives job growth. As a result, most politicians are obsessed with jobs as the main avenue to economic security—they push the idea that we need to create more and more jobs, and find people to fill those jobs. This obsession leads to a tilting at windmills on the part of political leaders, particularly during election years—and doubly so during recessionary election years such as this one.

Mainstream Democratic politicians are right about the fact that productivity gains are not equally distributed among workers. But they are mendacious in promising that they can fix the problem by scuttling trade deals or cutting tax rebate checks. In a globalized economy where wages are always lower somewhere else, keeping manufacturing jobs here is a losing battle. Instead we should focus on de-linking—to the maximum extent possible—economic security from the vagaries of the labor market by helping average Americans become part of an investor class. We Americans should be thinking about ourselves as an investor society, as global capital managers. Yes, this may take a feat of imagination to envision during a period of recession, but if we don't take stock of our fundamental policy strategies during a downturn, when will we?

With the current consumption-based approach to social and economic policy, there will always be a disconnect between the macroeconomic health of the U.S. economy and the fortunes of the typical American family. Productivity growth results in the shedding of jobs and a windfall for the few—the executives and major shareholders—instead of the many. By contrast, if everyone were an investor, productivity gains could instead be distributed in the form of dividends. When productivity increases, we could actually work less, taking more time off when our kids were born or our parents were ailing, for instance. Such a work-deemphasizing approach would represent nothing short of a whole new economic policy, one more appropriate for a post-industrial knowledge economy than the New Deal's vestigial, social insurance model.

This need for a national family investment policy is made all the more pressing by recent trends in private savings rates nationwide. In 1984, the rate stood at 10.4 percent of national income. By 2006 it had slid into the red (–1 percent). We have the lowest savings rate among the world's largest economies, and the lowest domestic savings rate since the Great Depression. How is it possible that we had negative savings even in the early 2000s, a time of economic growth? Answering this question is key to understanding the recent disconnect between the macroeconomic health of the economy (as traditionally measured) and poll numbers showing an American public anxious about their economic prospects.

We need to do something drastic to raise our savings rates in this country—across the socioeconomic spectrum—or face a future in which we do not control our own financial destiny.

Obstacles to Savings

Today's relentless consumption and depressed savings is a relatively new development, not a long-standing feature of American culture. These outcomes may be understood as the result of outmoded social arrangements that depress savings in general and retirement savings in particular. The following four factors are especially problematic.

Over-reliance on employer-based plans: Like our health care system, our savings system is broken partially due to its historic link to employers. But today, in an era of flex time and frequent job change, only about half of all workers are covered by an employer retirement plan. And less than 30 percent of low-income workers (the bottom fifth of the income distribution) have the opportunity to take advantage of such plans. Just as it does not make sense from a competitiveness or efficiency standpoint for the United States to lean on employers to provide health care, the same can be said for savings policy. It is time to recognize that a system created in a previous labor market does not work in today's climate. Individuals should be able to enjoy all the tax and match benefits of savings regardless of who their employer may be or whether they are employed at all.

Overly complicated tapestry of plans: The number of savings plan types is truly dizzying: traditional IRAs, Roth IRAs, 401(k) plans, simple 401(k), 403(b) plans, 457 plans, thrift savings plans, simple IRAs. The list goes on and on. Worse yet, given the nature of politics and the policy-making process, legislators often just add to the existing smorgasbord of programs. As with tax reform, it comes time every so often to overhaul the system and simplify. That time has come. Why is less more? With a smaller number of clearly delineated plans, it becomes easier to explain which plans should be used for which purposes, and the public is accordingly less likely to abandon all hope of understanding.

Silo-ed savings plans: In addition to the various retirement savings options listed above, we also have savings plans for health and education (health savings accounts, Coverdell IRAs, 529 plans). However, an integrated, lifetime savings policy would create a single mechanism to incentivize savings for a variety of productive purposes. Of course, we would need to rethink bankruptcy and other laws to protect essential savings from creditors in much the same way that retirement savings currently enjoy a privileged position. In other words, if we were to link all tax-privileged savings plans into a single account, we would need new rules to protect some portion of those savings for retirement—in case, for instance, a family were devastated by medical bills.

We Americans should be thinking about ourselves as an investor society, as global capital managers. Yes, this may take a feat of imagination to envision during a period of recession, but if we don't take stock of our fundamental policy strategies during a downturn, when will we?

Lack of commitment mechanisms: We know from behavioral economics that future commitments to save are easier to make than current commitments, since people tend to discount the future more than they "should." Yet we continue to have a policy that does not take into consideration this fundamental aspect of human nature. We need a policy that allows individuals to commit to future withholdings, even if they do not feel ready to contribute at a particular point in time. We also need to offer individuals the option of electing "covenant" savings plans. Borrowing from the covenant marriage movement, this election would stiffen rules for withdrawal and strengthen future contribution commitments.

If we were to achieve a consensus that traditional social insurance is simply not enough in a post-industrial economy, what would an investor society policy environment look like? An attractive approach is outlined below.

Toward an Investor Society Policy

The hard part of saving, everyone knows, is being able to forget about all the other seemingly endless needs and wants that arise each pay cycle and instead squirrel away part of our check. Those in the middle and working classes have it particularly rough in this regard. They have more financial pressures, and they frequently do not have an employer who is willing to match savings with company funds.

In fact, H&R Block recently conducted an experiment in which one group of income-tax filers was offered a 50 percent match to divert some of their tax refund to an individual retirement account. Only 14 percent took the company up on its offer (though this figure was lower for those who were offered no match or a smaller one). This relatively low figure may dumbfound some economists as irrational. But it makes complete sense to sociologists. Many of Block's clientele are folks who can barely make ends meet on a day-to-day basis. Plus, they are uncertain about the future, and rightly so. Will they hold onto their present jobs in an age of employment instability? Will they even live long enough to enjoy the fruits of their IRA? They may be figuring that $500 in hand now is a lot more valuable than $750, plus compounded interest, 20 or 30 years in the future.

But if it is true that future uncertainties combine with the financial stresses of today to put the squeeze on lower-income families' savings, then there is a silver lining, a way to provide these families an easy savings mechanism over the long haul: no-money-down, long-term matches (thereby using the logic of the balloon mortgage payment and other tricks of the sub-prime lending market toward better ends).

This is how it would work: Instead of having to make repeated "savings decisions" to fork over my tax refund year after year in order to qualify for a saver's credit (under the current IRS policy) or an IRA match (under the Block experiment or a similar policy), the individual would agree to set aside future wages—say 4 percent annually for 15 years. In return, the individual gets a $1,000 initial deposit into a savings account, and a 50 percent government match for that 4 percent over the course of the next decade and a half. The key is that the government would be asking low-income savers to commit to squirreling away future earnings, not current tax refunds (as compared with the H&R Block experiment or the current U.S. saver's credit). This commitment structure gives savers something now while paying later—thus promoting savings by taking full advantage of what we know about human behavior.

Building on this idea, such a plan could borrow inspiration from the covenant marriage movement to strengthen the savings commitment even further. Here, penalties for non-qualified withdrawals would be more severe. We could use the future match rate as an incentive for individuals to commit to greater savings by offering, for example, a 50 percent match for the first 3 percent of earnings committed to savings; 55 percent for the next 1 percent; and 60 percent for the following 1 percent. This

creates the maximum incentive for everyone to put away 5 percent annually. Individuals could save more of their pretax income (up to, say, 10 percent) on this tax-preferred basis; however, the match would end at 5 percent. The entire system would be limited in the same way FICA is currently limited to the first $102,000 of compensation in order to ensure some progressivity.

Lest more stringent withdrawal penalties seem draconian, universal savings plans could be designed for lifetime use. In other words, we could have one tax-preferred asset account that would work as a 529 college savings plan, a health spending account, and a universal IRA. Thus, withdrawals (up to certain percentage limits for each category) could be made for a wide range of qualifying reasons at any point. Such a plan would be intended to replace all retirement savings plans—employer- or individual-based—as well as savings policies not intended for retirement (such as tax credits on savings).

Evidence from savings experiments also suggests that once the initial barriers to saving have been surmounted, individuals tend to save more. In other words, savings is addictive. I therefore propose that we create a series of universal "family savings accounts," seeded with $1,000 at birth, mimicking Tony Blair's "baby bonds" policy that has been successfully implemented in the United Kingdom. Parents could then direct a proportion of their matched savings to their children's accounts with no tax penalty. This will make every child grow up with an asset and savings orientation. A successful retirement security orientation must begin with the right policies from the cradle.

While I have focused on improving savings opportunities for low-income Americans here, such policies could (and should) be made universal. This ensures both fairness and political support. But it should be noted that, in general, it is lower-income Americans (and minorities in particular) who face a savings/assets crisis. This is most true in today's recessionary economic climate, making action all the more urgent and necessary. Key to righting American savings rates as a whole is fixing the system for the poorest among us.

The Covenant Savings Plan

Last year's Pension Protection Act takes a step in the right direction by encouraging (though not requiring) companies to make 401(k) deductions the default upon employment unless a participant does the paperwork to withdraw. But for the increasing numbers of Americans who are self-employed, temporarily employed, or who work for a company that does not offer a 401(k), we need to create the same structure of savings.

A "covenant savings plan" along the lines of what I've outlined here would do exactly that—provide a mechanism by which those who don't have the option of a 401(k) at work can check a box once and save for years. This family savings plan should garner appeal on both sides of the aisle. Republicans have long desired private savings accounts for all Americans. Democrats, meanwhile, want to protect Social Security and augment it for those at the bottom of the income distribution. This proposal accomplishes both goals.

Is now the right time to recast ourselves as an investor society? It might well be argued that, however attractive such a recasting might be, we haven't the luxury of undertaking major reform in the context of dire economic circumstances. But economic history suggests otherwise: It was, after all, precisely the dire circumstances of the Depression that ushered in major institutional reform (in the form of Keynesian economics), reform that served us well for the bulk of the 20th century. Some 70 years later, difficult economic circumstances again cast in sharp relief the deficiencies of consumption-based approaches, shortcomings that can no longer be ignored. These circumstances, for all the short-term pain they cause, will be a long-term blessing insofar as they force us to chart a new and more productive course for the 21st century.

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