“We Are Better Than This”

A Summary

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A Quick Summary

• Comprehensive, authoritative, witty, eloquent treatment of fiscal policy writ large

• Upon re-reading recently, three notable features:
  • Emphasis on spending over taxes
  • Proposals are substantial but feel modest (i.e., realistic) given the strength and depth of the intellectual framework presented
  • Clear precursor to second book, on the role of luck
Basic Theme: Policy debates should refocus toward spending relative to taxes

- “Tax policy is the handmaiden, spending policy the sovereign.”
- “When we starve government of resources, it turns out that we largely are starving our own long-term prosperity.”
- Most redistribution occurs via the spending side of the budget
Government spending should focus on things markets do poorly

• Public investment

• Social insurance
Public Investment

• Makes the private sector more efficient

• Both “little” items (potholes) and major items (broadband, infrastructure)

• Education – more for young children, more for low-income, rethink higher education
Social Insurance

• To protect against luck
  • Economic vicissitudes
  • “Status of birth” risk

• To address irrational behavior – e.g., not saving enough

• To offset unfair market mechanisms – e.g., a young worker laid off

• To afford equitable outcomes – e.g., redistribution within Social Security

• To encourage risk taking – flip side of moral hazard
Errors of the progressive movement

• Not emphasizing the role of luck in outcomes (as a motivation for policy changes)

• Focusing on taxes rather than the overall fiscal system

• Calling it “redistribution” rather than “social insurance”
Focus on Values

• Adam Smith’s values
  • Theory of Moral Sentiments, Smith was a “moralist and mensch”
  • Individual happiness and prosperity are tied up in the happiness and prosperity of the society in which one lives

• Kleinbard’s values
  • Embraces the dignity of work
  • Acknowledges “the pervasive hand of fortune – of simple luck – at work everywhere”
Focus on Facts

• Poverty
• Inequality
• Mobility
• Education
• Health
• Nutrition/food security
Proposals

• Investment and spending
  • About $200 billion more per year, including infrastructure spending, infrastructure bank, removing the sequester (GDP in 2014 – $17.4T)

• Social insurance
  • Finance SS by raising the payroll tax cap
  • Cut health care expenditures
  • Eliminate tax subsidy for health insurance
(Other) Tax Proposals

- Relative to historical systems
  - Pre-2001 system, but
  - Maintain lower rates on dividends and capital gains
  - Maintain higher child credit as of 2012
  - Repeal the AMT

- Proposals
  - Restrict itemized deductions
  - Gas tax increase

- Broader reforms
  - International
  - BEIT

- But “no” on: VAT/consumption tax, carbon tax, higher top tax rate, higher corporate tax rate, tax gains at death
Conclusions

• A compelling read /Classic Ed
  • You can hear Ed’s voice on every page.