What’s Luck Got to Do with It?

How Smarter Government Can Rescue the American Dream

Oxford University Press (2021)
Fiscal Policy Meets Moral Philosophy

• This book returns to the fiscal policy themes of *We Are Better Than This* – and situates them more specifically at the intersection with our social values.

• Prof. Kleinbard’s time at JCT opened his insight into the twin levers of fiscal policy – spending as well as taxing powers.

• He urges us in this book to see fiscal policy as an exercise in applied moral philosophy as much as economic models.
  • Our government taxing and spending decisions announce to the world our national priorities.
  • Do they actually reflect the kind of society that we want?

• The book frames those questions by exploring the key role of brute luck in the outcome of our material lives & what it should mean for our policy choices.
We don’t get to choose the lives into which we are born – not our parents, our geography or our health. But those wholly fortuitous events all materially change our outcomes. The book highlights economic research validating the outsized effect of random luck - vs talent and other factors - on financial outcomes.

Ignoring luck’s pervasive role distorts our societal choices – and erodes authentic equality of opportunity. In the U.S., we rely disproportionately on private family resources to invest in the human capital required for modern-day success. Bad brute luck ends up limiting resources for personal development - closing off avenues for equally talented and industrious individuals to equally flourish. The book discusses the corrosive effects on what Prof. Kleinbard calls “our fiscal soul” – in both economic (lost GDP) and moral terms (erosion of one of our founding credos).
Denial of Luck

• Why is it so hard for us to accept the role of luck in our success?
  • Learning from social psychology on “Belief in a Just World”
  • Describes our innate tendency to construct that the world must be “fair” – people get what they deserve and must deserve what they get

• Causes us to unconsciously associate luck-based *bad outcomes* with having *bad character* (blaming the victim)

• This handicaps our social response to brute bad luck by tying remedial programs to degrees of perceived “deservingness”
  • The book reminds us instead that government involves “making commitments to people you do not know, and if you did know, might not like.”
Unequal Investments: Education & Healthcare

• The book dives deep into two areas where the bad luck of unequal social investment manifests sharply.

• **Education**: should be an engine of opportunity in our society; lifetime returns to investing in education are very high.
  • But the facts of our education investments are dismally unequal.
    – U.S. is one of the few OECD countries to spend *more* on public education of *rich* kids than poor kids

• **Healthcare**: essential to personal well being - and pursuit of economic success underpinning GDP growth.
  • Unequal healthcare access results in higher U.S. spending (as % of GDP) - but worse public health outcomes - than most other countries.

• Government investment is required to restore equal opportunity
  • Beyond the scope of what private markets can do
What To Do?  
Insurance to the Rescue

• Consider social spending as investment in *risk management*  
  • Blunting effects of randomly distributed bad luck on our human capital  
  • Enhancing equality of opportunity – not necessarily of results  
  • Inclusive growth literature shows it generates faster economic growth & larger GDP – by upgrading the labor force (our largest asset class)

• Borrowing *Insurance* principles as a lens for disciplined analysis  
  • Insurance is a familiar tool to manage financial risks of bad luck.  
  • By pooling risks, participants each can pay a small known cost to get protection against random events causing a large financial loss.

• Government programs framed as applied “social insurance”  
  • Risk pool includes all of us; premiums collected via the tax system  
  • Coverage for designated “social” perils (old age, unemployment)  
  • By analogy also for “social assets” (childcare, public education) as pre-emptive insurance with *benefits paid in kind*
How Much To Do?
The Moral Philosophy of Fiscal Policy

• Prof. Kleinbard turns to moral philosophy as a framework to weigh fiscal policy choices around equal opportunity.
  • He compares philosophical inquiries into “equality” to delimit what he sees as practically actionable boundaries for government redress.

• Distinguishing luck-based outcomes from moral deservedness: (Philosopher John Rawls’ famous paradigm):
  • We are disembodied beings about to be born. We can choose the structure of our society but not the place we will have in it.
  • How many would choose a “winner-take-all model” vs one with relief for those with bad luck to wind up in the bottom tiers?

• We can afford it, if we want to!
  • U.S. tax rate & social spending is low relative to our Western peers.
  • Requires a new national narrative – replacing “market triumphalism”
  • Marrying how to normalize human capital investment with why
    • More human flourishing and more national income, more broadly shared