

# “We Are Better Than This”

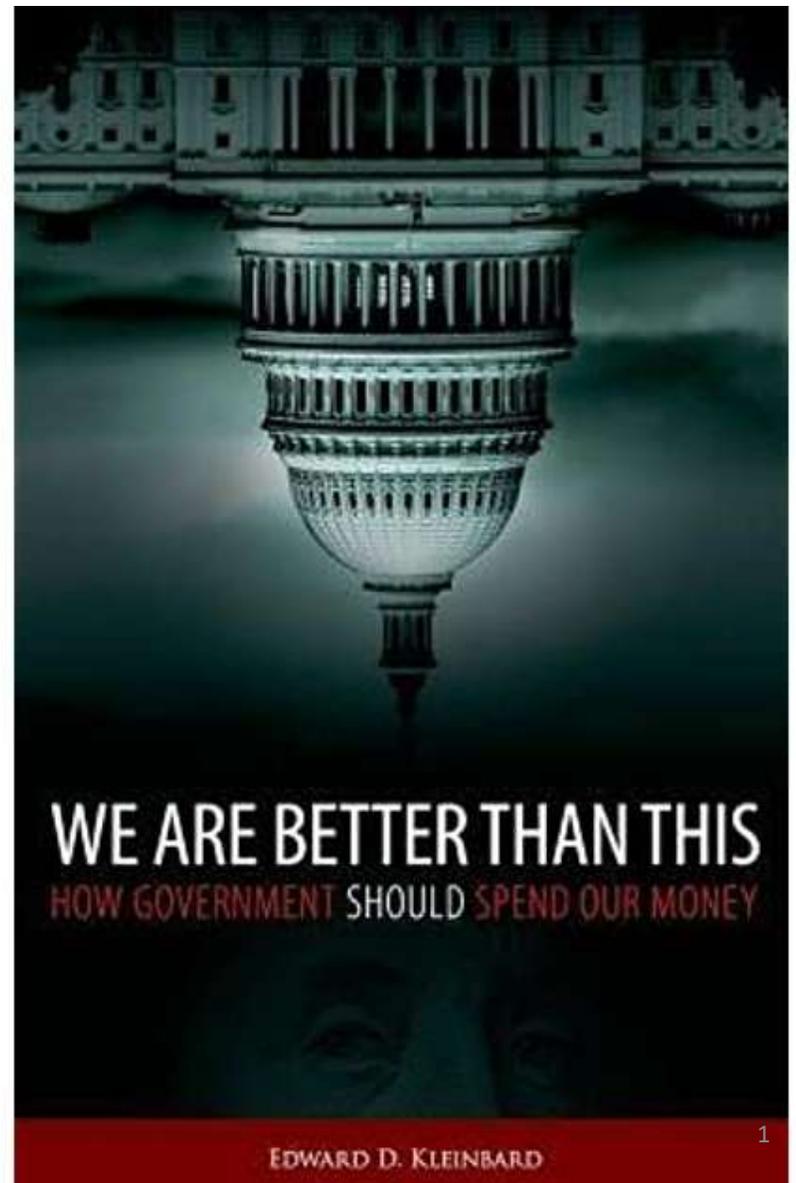
## A Summary

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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.