



# *What's **Luck** Got to Do with It?*

*How Smarter Government  
Can Rescue the American Dream*

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**Luck**  
Got To Do  
With It?



How Smarter Government  
Can Rescue the American Dream

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# 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.



# Luck Has Everything to Do With It

- 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*