
INTRODUCTION | Uncorrected Proof (06.11.14)

A NATION OF JERKS?

Let me ask you a question: What do you believe our government is good for?

I can almost hear the chortling—the nearly irresistible urge to answer my question with a hearty “Nothing!” and then to turn back to one’s private pursuits. But I ask that you consider for a moment the possibility that the answer is not quite this obvious, and that in fact government—which is to say, all of us, acting collectively—can make our country healthier, wealthier, and happier, if we put government to useful work in those areas where it most productively complements our private markets.

That is what this book sets out to demonstrate. Its purpose is to encourage readers to resist the gravitational pull that naturally tugs us in the direction of becoming what one recent opinion piece termed a nation of “jerks.”¹ That short article summarized research suggesting that the fraction of Americans who believed that government should guarantee each person enough to eat and a roof over her head fell by 10 percentage points over the five-year period since the onset of the Great Recession, declining to fewer than three out of five Americans in 2012. It would be nice if this disenchantment with government were a consequence of government’s displacement by nationwide movements that actually funded and operated community-organized food banks and shelters sufficient to the national task, but the data contradict this convenient claim. Millions of American citizens are hungrier today than they were in 2007, and the reason is simply that those of us who are not acutely hungry are more anxious about ourselves and our own economic security.

As I write this in late 2013, our economy still underperforms for most Americans. As a result, this personal economic anxiety is understandable. But

XX INTRODUCTION

We Are Better Than This shows that the path forward to a better economic environment for all of us lies through more government involvement, not less. When we starve government of resources, it turns out that we largely are starving our own long-term prosperity.

We are inundated today by economic noise and fog designed to generate superficially plausible rationales for what at bottom are simply jerk-like instincts. You see this machinery at work, for example, when you read editorials making the “leveling down” argument: you cannot make the poor rich, the writer sadly notes, by making the rich poorer—there’s just not enough money to go around to do that. In your naïve ambition to level up the poor, you will only succeed in leveling down the rich. The regrettable slaughter of the goose that laid the golden eggs is sometimes invoked. The writer then typically draws from this purported iron law of economics the conclusion that, since the rich cannot shoulder the whole burden, why ask them to do anything at all?

We Are Better Than This refutes these and similar exercises in false economic syllogisms. The book demonstrates that we effectively leave long-term prosperity and happiness off the table through our current penchant for minimalist government. And it makes the economic case for a more muscular federal government that complements the private sector through sensible investment and insurance programs.

In making the economic case for government investment and social insurance functions that work with, not against, the private sector, We Are Better Than This shows that we can afford to pay for government to take on a larger role, and that our semi-annual budget emergencies are largely false fiscal crises. It calls for somewhat higher federal income tax rates than those in force in 2013 (except at the top!), but not materially higher than those in 1999, when the economy was humming. There is nothing terribly radical in the book’s programmatic aims (except perhaps in its fundamental business tax reform suggestions, all the way at the end of the book). I am not a closet Trotskyite. I am, in fact, a friend to business—in a Dutch uncle sort of way.

Along the way, the book marshals a great deal of evidence, and assists readers in becoming much more sophisticated consumers of claims regarding tax and budget policy. The reader who makes it all the way to the end may well not agree with me at every turn, but he or she will be a better informed citizen, and much less likely to be a fiscal jerk.

TAXING AND SPENDING, OR SPENDING AND TAXING ?

As the actor Edmund Kean lay on his deathbed, a tactless friend inquired whether dying was difficult. “No,” Kean replied, “Dying is easy; comedy is hard.”

And so it is with fiscal policy—that is to say, the art of government spending and taxing. Households find it difficult to earn money and easy to spend it. But for governments, taxing—the side of fiscal policy that seems so difficult and abstruse from the outside—turns out to be relatively easy as a technical matter; it is the policy underlying government spending that is maddeningly difficult.

This conclusion is something of an embarrassment to me, as I have spent 35 years meditating on federal tax matters, as a practitioner, government official, and academic, but it nonetheless is true. Colbert—not contemporary pundit Stephen, but rather Jean Baptiste Colbert, finance minister to King Louis XIV of France—explained the essence of tax policy neatly 350 years ago: “The art of taxation,” he wrote, “consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.” All of contemporary tax policy analysis is just an elaboration.

Since the time of Colbert, we have learned a great deal about how to pluck the goose as quietly as possible. Public finance economists (the subspecies who study the effects of tax and government spending policies) now have a reasonably clear idea of which tax policies lead to the fewest squawks, in terms of unintended economic consequences. Government spending, on the other hand, is completely different. There are no generally agreed-upon technical solutions to the question, what is the proper role of government? This question, it turns out, ultimately does not even reside solely in the domain of economics (although many economists resist this). Instead, the issue implicates questions of moral and political philosophy with which thinkers since Aristotle have wrestled.

So all of our technical knowledge on the economic side effects of taxation cannot resolve the fundamental fiscal issue that dominates contemporary political discourse, which is how much tax revenue our technical expertise should be harnessed to collect in the first place. But in turn, government taxing and spending are completely bound to one another, so that policies in respect of one side cannot be developed without considering the other.

The famous economist Milton Friedman summed things up with the maxim, “to spend is to tax.” That is, every decision by government to spend money necessarily requires an offsetting commitment to raise the revenues to pay for that spending. Friedman’s aphorism is as close to a Newtonian law as economics gets.

Of course, government has a few choices of how to relate taxing to spending, some of which are more disreputable than others. Its honorable choices are to tax now to pay for current spending, or to issue bonds (IOUs) today, and collect taxes tomorrow (or the day after tomorrow) to repay those borrowings. Government’s seedier options include borrowing today and then relying on inflation to minimize the tax burden tomorrow, but that is just a way of saying that inflation itself is a hidden and pernicious sort of taxation, in this case on lenders. And finally

XXII INTRODUCTION

government can amaze the world by borrowing today and defaulting tomorrow, but this tactic turns out to be so cataclysmic in its implications that only a modern Nero would contemplate it.

Tax policy is the handmaiden, and spending policy the sovereign: we need to decide on what projects to embark collectively through the intermediation of government before we can design a tax system to meet those needs. Our greatest public finance policy mistake over the last few decades has been to obsess over tax policy, while simultaneously failing to have serious and rational debates over spending policy. We quibble over tactics without really engaging in the more difficult enterprise of forging a national consensus on our strategic objectives.

And therefore this book, which in its embryonic form was an explanation of the tax policy choices that confront us as a nation, necessarily has evolved into a more discursive inquiry into what we fairly should ask our government to do by way of spending our money. It is also a confession by a longtime tax geek that I, like many others, have elevated the tactical issues of tax system design beyond their ultimate importance to our society. Instead of arguing about tax rates or even levels of tax revenues in the abstract, we must focus instead on the real question, which is what we think our government is good for.

WHAT'S MORAL PHILOSOPHY GOT TO DO WITH THIS?

Fiscal policy recommendations in the end always are normative—they embody a point of view about our values, our relationships to each other, and what those values and relationships should be. Spending may be the sovereign, and tax policy the handmaiden, but what we choose to spend on is determined by our values and belief systems. And these in turn should be discussed more directly than they usually are, even by those of us whose inclinations tend more toward action than rumination.

This means that the book necessarily must touch on moral philosophy. To be clear, I hate philosophy just as much as does the next red-blooded American. Most philosophical texts are too convoluted and abstract to gain much traction with me, and I have the urge to tell any philosopher I meet that he should just lay off the word games, get outside, and throw a football around with the other fellows. But it turns out that all fiscal policy recommendations rest on a foundation of moral philosophy: the only question is whether we are conscious of that fact.

My values are old-fashioned progressive values. I internalize these values for two reasons. First, I believe that almost all of us embrace the dignity of work as a central organizing principle in our lives. I do not accept the picture of America that some like to paint, of a vast underclass interested only in leeching, or mooching, or whatever the verb of the moment is, off a virtuous super-class of authentically productive people. And because I believe that government serves all of us,

I tolerate the occasional counterexample, if rooting him out comes at the cost of failing to help thousands or millions of others to achieve as much as possible out of their lives.

Second, I see the pervasive hand of fortune—of simple luck—at work everywhere. I am very industrious, and I have achieved some success and material comforts, but I could fill a book longer than this one with all the good fortune that has come my way, starting with my native intelligence. Those who ascribe everything they are and have achieved to their “native” talents, and who view with derision those who have not achieved comparable success in the world, not only willfully overlook the good luck that has come their way, but more fundamentally fail to consider why it is they are blessed with those congenital qualities that the world rewards. Their fiscal thinking—usually articulated as a confusion of personal financial freedom with a society’s political freedoms—ultimately rests on thinly veiled narcissism, or the embrace of a cartoon version of Calvinist predestination. Both are distasteful and un-American.

We Are Better Than This focuses mostly on economic claims and arguments, because that is the arena where modern fiscal debates actually take place. But I do think it worthwhile to hold up our moral premises for examination from time to time. I do this in particular by exposing readers briefly to the moral philosophy of Adam Smith. He would have been appalled by the affixing of his name to a belief system in which personal selfishness entirely explains individuals’ behavior and life goals, and in which government exists principally to get out of the way of market transactions. By glancing occasionally at what Adam Smith actually thought, we can see how impoverished our moral discourse has become.

A DUTCH UNCLE TO ALL

I am a friend to business, even if the affection is not always reciprocated. I worked for decades on Wall Street, and my own conversion on the road to Damascus lay in the direction of engagement with fiscal policy in a broad sense, not in a repudiation of Big Business, or anything as silly as that. There are no rants in this book about the inherent evils of business, or business people. I fully accept that all else being equal, it is better to be richer than poorer, and that it is natural and appropriate to aspire to wealth.

But that does not mean that life revolves around these themes alone, or that they justify structuring our society as a winner-take-all contest fought in the marketplace rather than the forests of Panem.² As Adam Smith said, “When the happiness or misery of others depends in any respect upon our conduct, we dare not, as self-love might suggest to us, prefer the interest of one to that of many.”³ As Chapter 2 demonstrates, Smith was vitally concerned with living a life of virtue, one in which rational self-centeredness in the marketplace plays only a small part.

XXIV INTRODUCTION

On the other hand, I also am not a cheerleader for the Democratic Party, President Obama, or some standard tropes popular in progressive political circles. I do not think very highly of the fiscal implications of the Affordable Care Act. And I certainly do not propose to apologize for the October 2013 rollout of the infamous website by which citizens engaged with their new health insurance options. It was inexcusably awful, of course.

But by the same token, I do not draw any particular inferences from that debacle for the themes of this book. New Coke was a disaster, but it did not prove the futility or incompetence of capitalism in general. Similarly, the healthcare.gov website screw-up is not a particularly persuasive indictment of the utility of government in all cases, although it does suggest some concrete lessons for how large-scale IT rollouts should be handled in the future. As Chapter 11 discusses, we often are quick to make a classic error of logic when we abstract from one concrete instance to a general claim about large-scale institutions. The only larger lesson to be drawn from the healthcare.gov rollout is that there are costs to decades of deprecating government service in general, and failing adequately to maintain agencies' infrastructures.

We Are Better Than This in fact argues that the Progressive movement in the United States has made three fundamental strategic blunders over the years. First, the movement allowed conservatives to corner the market in encomia for the virtues of thrift, hard work, and personal responsibility. Progressives also embrace these virtues—they just are sensible enough to see the pervasive role that luck plays in actual outcomes. Because outcomes are uncertain, the collective purchase of reasonable levels of social insurance promotes socially useful risk-taking and enhances the overall welfare of society.

Second, the Progressive movement allowed “redistribution” to be viewed as a value-neutral term, when it is not. You can observe this when reading a passage by substituting “social insurance” for “redistribution” every time the latter appears, and then noting how the sense of the passage changes.

Third, and most surprisingly, progressives have been fixated for over 100 years on the progressive income tax as their policy objective, when in fact what they should focus on is promoting a progressive fiscal system—that is, the net of all the “gives” and “gets” between a citizen and her government. Again, spending, not taxing, is the real purpose of government in its fiscal capacity, and it turns out that regressive taxes can and do fund genuinely progressive spending programs that, net, lead to more progressive outcomes.

THE BOOK'S AMBITIONS

Beyond its overarching goal of encouraging resistance to the gravitational pull of fiscal jerkdom, *We Are Better Than This* incorporates several congruent ambitions,

all filtered through my unbridled enthusiasm for tax and budget policy. Rethinking what we ask of government requires our active engagement in the political process, armed with accurate information about what we are doing today, how well we are doing it, and how much it might cost to do it better. I therefore situate the United States as one country among many, and I construct report cards for the current health and performance of our society and our government across a range of important functions. When these report cards are examined objectively, we emerge as much less exceptional than we pretend to be, except in some unhappy ways, like our insistence on spending much more on healthcare (nearly \$1 trillion ever year in excess spending) than we would if we were to spend the same per capita as the next most profligate country in the world—without materially better outcomes in most cases.

Second, I present in an accessible manner current academic research into fundamental questions about the structure of our society and the trade-offs we face when a government tries to intervene. Who really pays the corporate income tax? Is inequality really growing, or is that just an artifact of how we measure it? Do tax cuts pay for themselves? There often are consensus answers among academics to these sorts of question, but the fruits of the research are poorly disseminated. More disturbingly, our information channels are choked with disreputable rascals who employ sophisticated rhetorical sleights of hand to make superficially plausible arguments to advance political agendas, rather than to increase understanding of our tax and budget policies. I therefore do my best to dissipate the fog of our fiscal wars. The result often is not one inevitable answer, but at least a narrower range of sensible options than our current overheated debates might suggest.

With this grounding in economic facts and analytical methods, the book turns to how government might usefully make things better, in ways that reflect our deepest values. These values include our strong commitment to private enterprise, both because private enterprise in general is the path to greater national wealth and because the circumstances in which it flowers also are conducive to the preservation of personal liberties. I therefore look for channels where government can productively complement the private sector, not replace it. I emphasize two: public investment and social insurance. The second in particular is conceptually important, because it brings into focus the important question of the role of luck in life's material outcomes, and what inferences we should draw from that.

Finally, the book returns to the area of my own academic work, which is the design of our tax system. Again, government does not exist to tax: it exists to spend, and tax design is just a question of how efficiently to raise the necessary revenues to support productive government spending. But of course there are smart and dumb ways to impose taxes, and I therefore suggest how we might move past some of the bad ideas that we currently embrace.

THE BOOK'S DATA SOURCES

Writing a book like this sometimes has the feeling of chasing one's own tail, because governmental agencies regularly update the data that they publish on our government's spending and taxing, and because new studies come out constantly. Whenever possible, I draw my data from the most reliable nonpartisan resources, such as the Congressional Budget Office, the staff of the Joint Committee on Taxation, and the Organisation for Economic Co-operation and Development. The book's data generally are current as of December 2013. Nonetheless, the fiscal trends that the book describes and the fundamental tensions that bedevil our public discourse surrounding our conception of government will not disappear in the immediate future, and I therefore hope that the book will be found useful even after the bloom is off the rose of the data I present.

Since this book entered production, a new book by Thomas Piketty, *Capital in the Twenty-First Century*, has rightly attracted enormous interest. Piketty's new volume appeared too late to be incorporated directly into this book's arguments, but I do rely on several of his earlier papers. Serendipitously for me, the two volumes are complementary in their objectives. Piketty studies long-term historical trends in inequality, and emphasizes that in low-growth eras capital, if left unchecked, can grow to levels where "patrimonial capitalists" dominate society and erode democratic values. Piketty's solution, which he himself acknowledges to be unrealistic, is a global wealth tax.

This book also recognizes the central importance of economic inequality, but paints a somewhat broader picture of the welfare of contemporary Americans. Instead of looking back through history, I emphasize cross-country comparisons across a wide range of welfare metrics among contemporary affluent countries. I do this to puncture the narcissistic bubble of American exceptionalism in which so many Americans live. I also focus on the vagaries of American political rhetoric and budget processes, which of course are not germane to Piketty's magisterial exploration of economic history.

Ultimately, this book tells a more optimistic story than does Piketty's major contribution. Early on, I deliver our dismal national report card, but I then explain how all of us, working together through the medium of government, can complement private markets in ways that lead to better economic outcomes (in the narrow sense) and welfare for all Americans, not just the patrimonial capitalists—in other words, how all of us can participate in improvements in our country's future national report cards. This book thus is a principled call for the reinvigoration of government as a positive complement to private enterprise in contemporary America. Finally, my substantive proposals, and in particular my ideas about comprehensive tax reform, are targeted to the immediate needs of the United States, which again was not the goal of Piketty's volume.

A CLOSING APOLOGY

This is a long book, but one that covers a great deal of ground. I have endeavored to give useful citations to important academic contributions in each field that I discuss; in general, I err on the side of citing recent contributions, on the theory that they typically incorporate discussions of earlier foundational works.

To every academic who picks up this volume, checks the references in the back, fails to see his name, and therefore assumes the work to be useless tripe, I ask your forbearance. If I were to cite every paper that has any relevance to the topics I cover, the endnotes alone would occupy several volumes. I hope that I have captured the sense of current academic debates on the themes I develop, but I cannot possibly identify every contribution to those debates.

More generally, I am profoundly grateful to the academic community as a whole for the kind welcome I have received in academia, despite my arriviste status. Writing this book has been a forceful demonstration of just how demanding our discipline is, and I am filled with admiration for those who have pursued it productively for decades.