Comments on Kamin, *In Good Times & Bad*, and Auerbach, *Fiscal Uncertainty and How to Deal with it*

Daniel Shaviro, NYU Law School
National Tax Association, 108th Annual Tax Conference
Boston, November 20, 2015
First, the boring part

It’s no fun for the audience to sit through praise of the papers, even if (as here) well deserved. So let’s get it over with!

I very much agree with both papers’ main arguments.

Kamin: automatic adjustments are often desirable, but leaving ticking bombs lying around often is not.

Auerbach: long-term fiscal uncertainty doesn’t mean we should ignore the fiscal gap. To the contrary, it supports leaving an extra cushion.

But, although this is the NTA not the MLA, I want to “problematize” the view, arguably implicit in both papers, of “current policy” as a definable thing that we face merely technical challenges in maintaining.
Unpacking “current policy”

Say you & I agree (or make a deal) re. all current year budget items, plus rules on the books for multi-year programs (e.g., entitlements).

One could imagine an underlying “meta-policy” expressing how our view (or the deal) would nominally change, in order to stay “the same,” if particular circumstances changed.

Trivial example: Indexing dollar amounts for uniform price inflation.

Not quite as trivial: indexing for inflation if relative prices & market baskets change – a source of controversy in Social Security debate!

More judgmental still: indexing rate brackets for real bracket creep.

E.g., is gov’t spending a normal good or a superior good? Are rate brackets meant to be pegged to income percentiles or absolute levels?
Current policy: Is there a “there” there?

Now consider automatically adjusting top income tax rates when high-end inequality changes (a la Burman, Shiller, et al, “Rising Tide Tax System”).

Or deciding how income tax rates should change (a la tax smoothing) when the deficit or fiscal gap unexpectedly changes.

With incomplete contracting & bargaining costs, we may not know or agree how our view, or deal, would apply if/when things were different.

And if there is a fiscal gap, then the deal or current policy is incomplete by definition.
Kamin and “policy drift”

Policy can’t “drift” unless it’s tethered somewhere to begin with.

True, policymakers’ express assumptions about future fiscal aggregates may be falsified, -> new “policy space” outside prior decisions & deals.

But I don’t see it as a hard question whether policy should adjust automatically, if the adjustments reflect a policy framework that I like.

Of course it should! Inertia causes problems; I like what I like; we could get lucky later but who'd bet on that?

True, the overall effect on future legislation is inherently unpredictable (might be either good or bad on the whole).

Cf. Zhou En Lai, when asked if the French Revolution was good or bad: “It’s too early to tell.”
Should the idea of automatic adjustment be controversial?

If automatic adjustment requires special justification, that implies viewing “No nominal adjustment” as a natural baseline.

But I don’t see why it should be.

With or without it, we’re pre-prescribing results for future years.

If one really doesn’t like that, there’s always the Thomas Jefferson approach: All laws and constitutions expire after 20 years tops.

But of course, that doesn’t get rid of default baselines either.
Three automatic-adjustment examples
(Social Security, fiscal stimulus, Voting Rights Act)

I suspect few would object to automatic Social Security adjustments, keeping it solvent – so long as they liked the method chosen.

Blocked in practice, of course, by substantive disagreements, chicken games, & principal-agent problems.

For expanding automatic countercyclical adjustments, the dispute is mainly over defining the right policy.

For the Voting Rights Act, the problem is that political actors (including Supreme Court justices) disagree about whether disenfranchising poor & minority voters is desirable (the majority S Ct view) or undesirable.

So to me the big issue is less the methodology than the content of automatic changes.
Auerbach & addressing fiscal uncertainty

Say the projected debt-to-GDP ratio is fairly bad in the median forecast, but with equal prospects of being either really bad or just fine.

Should we “act now”? Auerbach says yes, & I agree for the reasons he states, but:

(1) What should “act now” mean? It could either involve or not involve changing currently applicable policy.

We can also, if we like, just change current statements (such as through law on the books) as to the policy that will apply in future years.

(2) No matter what we do, it will change policy, if only in the sense of addressing issues that previously had been left open.
The linkage problem

An unsustainable fiscal gap (or the prospect of one) means that we haven’t fully specified current policy (at least for all eventualities).

Thus, no matter how we address it - & even if doing so is unavoidable – in a sense we cannot avoid “changing” policy ...

... e.g., by spelling out how the shortfall should affect such ripe sources of disagreement as the “size of government” or intra-generational progressivity or inter-generational distribution.

This leads in practice to a “linkage” problem – people often respond to technical arguments (e.g., about the relevance of uncertainty to a projected shortfall) based on independently held policy preferences.

Many of those with whom the paper is arguing may be a case in point.
Making sense of the skeptics’ arguments

Say the median forecast shows Social Security outlays unsustainably exceeding revenues – but it might get either better or worse.

This surely weighs in favor of cutting retirement benefits, relative to the optimistic forecast.

But it doesn’t prove they should be cut. E.g., suppose they are currently too low (even all things considered), given inadequate lifecycle saving & defects in other pro-retirement savings policies.

Likewise, say one agrees that uncertainty about the future weighs in favor of precautionary saving on behalf of future generations.

This does not logically contradict also believing that actual long-range policy outcomes are likely, on balance, unduly to favor future, as compared to current, generations.
The normal Social Security retirement age

Should this be automatically indexed to life expectancy increases?

Clearly, how long one expects to live is relevant to when one should retire, and to how much retirement saving one needs.

But other factors are relevant too – e.g., to what extent is the increase driven by (a) generally slower aging & loss of fitness, as compared to (b) better treatment for seniors’ chief mortality causes.

Given Social Security’s complex, compound, imperfectly integrated tax vs. benefit structure, the change will affect progressivity, generational distribution, etc., in ways one might either like or dislike.

Compensating adjustments are not always politically available or likely.
A final word

Both papers seek to advance logical thinking about long-term budget issues.

Both urge consideration of immediate responses, at least in the form of automatically adjusting current law re. future policies.

The technocratic (so to speak) arguments that they offer are quite strong.

The authors of course cannot entirely answer, in these papers, the harder, more contentious, & more global questions of how one should define good long-term policy (or even “actual” current long-term policy).

These larger questions inevitably get enmeshed with, and complicate adopting, good technocratic suggestions.