

A taxing issue

April 13 2012, by Peter Dizikes

Simon Johnson and James Kwak had good news and bad news for the hundreds of people who turned out to hear them talk about the U.S. national debt at MIT on Tuesday.

The good news, Johnson said, is that, contrary to many public claims, the U.S. [national debt](#) level does not constitute a crisis right now.

“We don’t think it’s a panic situation or an imminent disaster,” said Johnson, who with Kwak has written a new book about the debt issue, *White House Burning*, which was released this month by Pantheon Press.

The bad news, however, is that there is no guarantee the debt situation will improve. As Johnson noted, the United States can shoulder its current debt load partly because of historically low interest rates on government bonds, which it issues to finance that debt. Should rates climb, growing interest payments on the debt could force painful cutbacks in other areas of the budget.

“This is a very unusual moment,” said Johnson, the Ronald A. Kurtz (1954) Professor of Entrepreneurship at the MIT Sloan School of Management.

More significantly, Johnson and Kwak believe, the solution to the debt problem involves something politicians in Washington have been unwilling to enact in about two decades: substantial [tax](#) increases.

“We need the revenue, or you need the government to get out of the

social insurance business,” Johnson said, alluding to Social Security, Medicare and other popular federal programs.

‘Call to action’

White House Burning takes its title from the 1814 torching of the White House by the British, part of the War of 1812, which the United States declared on Britain (and eventually won, in 1815). Then as now, Johnson noted, Americans suffered from a “mismatch between what they wanted the government to do ... and the revenue they were willing to provide.”

In the book, Johnson and Kwak, a law professor at the University of Connecticut, outline what they believe is a reasonable, mainstream solution to the U.S. long-term debt: the restoration of previous, higher tax rates, especially on the wealthiest households, combined with modest cuts in social programs.

At Tuesday’s event, before a large crowd in Tang Auditorium, Johnson termed the book a “call to action” where none has been taken over the last decade, as the United States has moved from an annual budget surplus to a deficit, and the long-term debt has grown.

The Republican Party has turned wholly against tax increases of any kind, partly due to pressure applied to it by the anti-tax group Americans for Tax reform, and its head, Grover Norquist, who have gotten most elected members of the GOP in Washington to sign a pledge stating they will not seek revenue increases of any kind.

Democrats are much more likely to say they support tax increases, especially on the wealthy — President Barack Obama has campaigned on that issue in 2008 and 2012 — yet, as Johnson noted, they have not followed through with legislation. When the Democrats had a chance to let taxes on the well-off increase, by letting former President George W.

Bush's tax cuts expire at the end of 2010, both parties ultimately agreed to renew the cut for another year.

Kwak said the Republicans have a “coherent, well-articulated” position on revenues: that society would be better if government, and thus taxes, would simply shrink. By contrast, Kwak added, in recent decades Democrats have never been able to settle on a coherent message about the need for greater taxes.

“The counter-argument to the conservative vision has not been spelled out,” Kwak said.

Giving the people what they want

In their remarks, Johnson and Kwak both emphasized that the political impasse over the size of government partly reflects a public that is “of two minds” about the issue. In public-opinion polling, substantial portions of the public will categorically say that government is too big, but then demand to keep intact its major social programs, most notably Social Security and Medicare. Indeed, as Kwak pointed out, 40 percent of Social Security recipients, in recent polling, said they had never benefitted from a government program.

“People don't know what the government does,” Kwak said.

As Kwak noted, about 20 percent of the federal budget goes toward [Social Security](#), while 20 percent is allotted for defense spending, 15 percent funds Medicare, 10 percent funds Medicaid, and about 8 percent pays down the interest on the [debt](#). All other spending amounts to about one-quarter of the federal budget.

As a policy remedy, Johnson and Kwak noted that they do not just want to raise marginal tax rates on high earners, but instead reform the tax

system a little more broadly, eliminating loopholes and certain benefits, such as the home mortgage interest deduction.

“If you refuse to raise tax revenue, to close loopholes, to eliminate tax expenditures, it will be very difficult to bring our fiscal house in order,” Johnson emphasized.

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