

Politicized Economist

By Editor Test Tue, Mar 13, 2012

Laurence Kotlikoff of Boston University, a member of the RIJ community, is running for president of the United States on a "purple" platform. But he's hardly middle-of-the-road.



Larry Kotlikoff, Ph.D., the Boston University economist, prolific author, creator of retirement planning software and proponent of "consumption smoothing" over the life cycle, is taking time out from his hectic schedule to run for president. Of the United States.

In a phone interview this week, Kotlikoff conceded that his campaign is a bit untraditional. You won't find him trying to milk donations from investment bankers, for instance, or consuming corndogs at county fairs in the Midwest, or repeating the same stump speech in an endless series of town meetings.



Instead, Kotlikoff (right) has thrown his hat into a virtual ring set up by [Americans Elect 2012](#), an organization and a website where voters who feel disenfranchised can either register support for a candidate, draft a candidate or even declare their own candidacy. as Kotlikoff has done the latter. And if he and running mate, Adm. (ret.) William Owens, a former commander of the U.S. Sixth Fleet, attract 50,000 support clicks by mid-May, they'll qualify for the Americans Elect "primaries."

As of Monday night, his 300 clicks put him in second place among declared candidates behind former Louisiana governor Buddy Roemer, who has 1,084, and far behind the leading draft candidate, Ron Paul, who has 4,215. The two highest click-getters in the primaries will clash in a run-off to determine the Americans Elect presidential candidate, who will appear on ballots in all 50 states next November.

The 'purple' plan

Readers of Kotlikoff's books will already be familiar with his platform. "The country is being driven broke by the two major political parties," Kotlikoff told RIJ this week. "We're in worse fiscal shape than any other developed country. We have 78 million Baby Boomers who will be receiving about \$40,000 each in Social Security and Medicare benefits. Our kids can't afford it. We have to fix these institutions before they do us in."

Regarding his political hue, "I put myself in the middle. Purple," he said. I'm independent. Fiscally, I view

the country's problems as economic engineering problems. I'm an economist, someone who sees problems and wonders how to fix them at least cost."

Kotlikoff has articulated his fixes in a series of books published over the past two decades (often with co-author Scott Burns). They include (*The Healthcare Fix*, *The Coming Generational Storm*, *Spend Til' the End*, *Jimmy Stewart Is Dead*, and, most recently, *The Clash of Generations* {MIT Press, 2012}). He has highly specific ideas for overhauling Social Security, Medicare, and the U.S. tax code.

Here's how Kotlikoff described his plan Social Security to *RIJ*:

"Social Security is 29% underfunded. It needs cuts in benefits or an increase in taxes. I would freeze the existing system—put zeros in everyone's earnings records from the date of reform on. Then I would put everyone in personal security accounts. Everybody would contribute 8% of his or her pay to a personal account. Your household's contribution would be split between you and your spouse. The government would make matching contributions on behalf of the poor. The money would be collectively invested in a global market-weighted index fund managed by a computer. The government would guarantee the account balance at retirement—setting a floor of zero return. The same computer would, on a cohort-by-cohort basis, gradually sell off the account balances and give people an inflation-protected annuity, beginning at age 62."

On Medicare, Kotlikoff says that his ideas resemble Paul Ryan (R-Wis), although he claims that Ryan borrowed his ideas from Kotlikoff and from John Goodman of The National Center for Policy Analysis. He like vouchers:

"Individual, risk-adjusted vouchers make a lot of sense. Who gets the biggest vouchers? The poor and the elderly. So even though it's an idea that comes from the far right, it's a very progressive proposal. Every American would get a voucher once a year. In return, they could buy a basic health care plan from an insurance company. All of the insurers would offer the exact same plan.

It's a 'purple' health care plan that will cost 10% of GDP, not 23%. The country won't go broke over it, and it will give everybody a good basic plan. If someone wants to pay extra for insurance that will cover angioplasties when he's 98, he can. It's not health care savings accounts. HSAs are about getting people to save. I want them to buy insurance."

To fund these new plans, Kotlikoff prescribes tax reform. He would substitute a consumption tax for personal and corporate income taxes:

"I would get rid of the income tax, the corporate tax and the estate and gift taxes. In their place, I would make the payroll tax highly progressive. I would cut the employee's contribution to the payroll tax to zero on first \$40,000 of income. I would take the FICA ceiling off and make all earnings subject to the payroll tax. Even though Social Security would be retired, I would keep the payroll tax in place—to produce general revenues and to pay for health care vouchers and accrued Social Security benefits.

Then I would implement a progressive consumption tax and a progressive inheritance tax with a 15%

ceiling on each. [15% of every \$100 spent, or 17.5% of consumption (\$15 equals 17.5% of \$100-\$85)] In return, each household would receive a Demogrant—a grant to each household that would give poor people enough to cover their consumption tax payments. On net, the poor would pay no consumption tax. At the same, time, a 15% inheritance tax would be applied to all estates over \$1 million.

The debt monster

America's growing debt is what keeps Kotlikoff up at night (and churning out books). Our national debt of \$15 trillion is mere pocket change, he says. He worries more about the gap, by his calculation, of over \$200 trillion between the present value of the federal government's expected revenues and the present value of its legal commitments to its citizens.

To fund that gap and set the government on a path to solvency, he writes in *The Clash of Generations* (MIT Press, 2012), the government would have to raise taxes by 64% next year and keep taxes at that high level indefinitely. That prospect makes for a scary future, and a sense of extreme present danger.

I know too little about politics or economics to say how feasible or effective Kotlikoff's proposals might be. I agree with him that Americans need to save more, that health insurance makes more sense than health savings accounts, that banks shouldn't be allowed to gamble with insured money, as he argues in his 2010 book, *Jimmy Stewart is Dead*. I don't know enough about tax policy to comment on his consumption tax idea.

Although I don't necessarily share Kotlikoff's inclination to catastrophize our fiscal dilemma—it can lead to panic and give ammunition to people who oppose all public institutions—his sense of urgency is clearly justified. If by chance he doesn't capture the White House in November, I hope the next president asks for his advice.