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TACKLING THE TAX CODE: EFFICIENT AND EQUITABLE WAYS TO RAISE REVENUE

A HAMILTON PROJECT POLICY FORUM

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Roundtable Discussion: Efficient and Equitable Ways to Raise Revenue:

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ROBERT E. RUBIN
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Roundtable Discussion: From a Financial Transactions Tax to a VAT: Policy Options to Raise Revenue:

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Roundtable Discussion: Increasing Compliance and Other Options to Raise Revenue:

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Roundtable Discussion: What is the Optimal Approach to Taxing Wealth?:

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PARTICIPANTS (CONT'D):

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Roundtable Discussion: What's Next for Corporate Tax Reform?:

MARK J. MAZUR, Moderator
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P R O C E E D I N G S

MR. SHAMBAUGH: Good afternoon. I’m Jay Shambaugh, I’m the Director of the Hamilton Project. Thank you very much for joining us here this afternoon to talk about this important issue. Tax policy is frequently a topic of vigorous debate; setting the level of taxation, but also figuring out how we want to raise revenue is an immensely important issue. We, at the Hamilton Project, are very happy to be releasing this book, which you’ve all just seen. In it, leading economists and policymakers have put forth their ideas about how they think we could raise revenue in efficient and equitable ways for the Federal Government.

There’re number of reasons that you might want to raise federal revenue. You could look at our fiscal picture and say that you’re worried in some sense about projections for the deficit or for the debt level and you might look and say that our federal revenue is at a relatively low level, as a share of GDP from it’s recent historical band, and yet our spending isn’t. And that in particular you might say our deficit level right now, given the state of the business cycle, is at a historical record.

But even if that’s not something you consider a problem; you might turn around and say but there’re actually a lot of other priorities I have. Whether it’s healthcare or early childhood education or infrastructure or dealing with climate change, that might need new sources of federal revenue to be able to handle. But then, lastly, you could even say, I don’t care about any of that, but I do care a lot about inequality and the state of how taxation is raised in this country and I want a more progressive system. In which case, you may want to be able to make trade-offs across different types of taxes.

So, our authors in this book and the panelists today, with the exception of the first panel, which will be a little more overarching, will generally focus, starting from the premise that we may want to raise some federal revenue, without trying to say exactly how they’re going to spend it. Really focusing on how to raise federal revenue efficiently.

One of the things that I think comes out of the book, and I think will come out of the panels today, is there are actually a lot of different ways we could raise revenue in a very progressive and efficient manner, and that we have a lot of choices that could raise substantial sums. And so, it's not something, just to be clear, we don't put forward this book saying we should do all of it today or yesterday or tomorrow or anything like that. The point is to lay out a set of choices and a set of options for policymakers. And in it we've tried to score things and show distributions so people could think about what would the right way to raise revenue be.

I want to thank the authors of the book for their work. At the wide set of reviews who helped vet and shape these policies and also make a special thank you to the Tax Policy Center who helped score a number of the proposals in the book. I would like to thank the Hamilton Project Advisory Council for their support and advice throughout our work in general and in this project in specifically. In particular, I'd like to thank our founders, Bob Rubin and Roger Altman and our special counselors, Jason Furman and Tim Geithner for their advice. Lastly, I'd like to thank the outstanding team at the Hamilton Project. Melanie Gilarsky helps make sure events like these go off seamlessly and Emily Moss helped coordinate the book process from beginning to end and deserves a great deal of credit for the fact that there is a book on this lectern right now. Our Managing Director, Kristen McIntosh, helps make everything at Hamilton work and is a crucial voice in all that we do. And Ryan Nunn, our Policy Director, co-edited this volume with me and is a great partner in all the research and policy work we endeavor to make.

With that, I'd like to move into the panels. We are very fortunate to have with us today four individuals who know a lot about taxes and the tax code. We have three former Treasury Secretaries and a former Commerce Secretary to provide the framing discussions. So, with that, I'd like to welcome the first panel to the stage. Please help me welcome. (Applause)

MS. PRITZKER: Well, thank you all for being here today. It's great to be able to have the opportunity to kick off our afternoon and the recognition of the new book, Tackling the Tax Code. I'm joined here by three underachievers. (Laughter) In all seriousness, I am really honored to be here and be in the presence of three such formidable leaders, such terrific intellects, and gentlemen who have done great service for our country. So, thank you all for being here today.

I know they really don't need an introduction so I'm just going to give you a little briefing; very short to provide some context. On our far left is Bob Rubin, who is the 70th Secretary of the Treasury under Bill Clinton and prior to the --

MR. RUBIN: Far left means spatially not necessarily ideologically. (Laughter)

MS. PRITZKER: My left -- yes, exactly. Maybe left of me too, I don't know. Politically --

MR. RUBIN: Possibly.

MS. PRITZKER: -- possibly. But that's a debate for another time. Anyway, after a long -- after he served as Secretary of the Treasury, after a long career at Goldman Sachs, and also prior to that was the creator of the National Economic Council and is first holder of that position. In our center, politically or not, is Larry Summers who is the Charles W. Eliot

University Professor at Harvard and he served as the 71st Secretary of the Treasury, also in the Clinton Administration as well as having served during the Obama Administration as the Director of the White House National Economic Council. And then prior to that, President of Harvard University and the Chief Economist at the World Bank.

And finally, the baby of the bunch Tim Geithner, who served as the 75th Secretary of the Treasury under President Obama from 2009 until ’13. Prior to that he was President since -- from 2003 till 2009 of the Federal Reserve Bank of New York. And, since 2014 has been President and Managing Director of Warburg Pincus.

So, our conversation today, and this great new Hamilton book, are about taxes as we all know. And they make somewhat of a presumption that we need new revenue. The reasons that we need new revenue are first, the huge fiscal imbalances that we have today. And the CBO has reported that large budget deficits over the next 30 years are projected to drive our federal debt from 78 percent of GDP in 2019 to 144 percent of GDP by 2049.

President Trump has increased our debt by 25 percent since he’s been in office and the feeling is this is not sustainable.

Second, these imbalances are not driven by ambitious new spending programs, but in fact, are driven by previous healthcare commitments, pension plan commitments, and declines in federal revenue. And Larry Summers and Jason Furman wrote earlier this year that the Federal Government in 2018 took in revenue equivalent to just 16 percent of GDP, the lowest level in half a century expect for brief periods in the aftermath of recessions.

Third, as Jay talked briefly about, with this current fiscal situation, we can’t address growing income equality, restore long-term economic growth, strengthen our safety net, invest in innovation, address climate change, and other priorities if we don’t restore America’s tax base. All pointing to the need for additional revenues.

And finally, we have to ensure that new revenue comes from those who are best able to pay. And since the late 1960’s, the share of federal revenue paid for by working Americans, in the form of payroll taxes, has increased from 20 percent to 35 percent. And yet, corporate tax collections have plummeted from over 25 percent to less than 10 percent of revenues.

So, let me conclude my comments by just saying all of us know that our tax system is enormously complex. But the reality is it requires examination to take a hard look at our current tax system so that we can provide fiscal stability and ensure that we have the funds to fund our priorities for our nation. So, with that, let me turn it over to our panel and begin with a first general question and Bob, I'm going to start with you, and we'll go down the line with a general question.

Put yourself in the position of a Senior Advisor to a new democratic president in 2021. What would you advise would be the top tax policy priorities? What should they be, and do you think the United States needs to raise revenue?

MR. RUBIN: Yeah, I think broad terms, what I would say, Penny, is exactly what we said to President Clinton during the transition in 1992. Which is, you need a fiscal framework, whatever it maybe. Maybe you think we should deficit fund, maybe you think we should not deficit fund, but we shouldn't worry about our trajectory we just pay for new measures. Maybe you think, as I do, that we should do both things for new measures and gradually address our fiscal trajectory. And that's a debate reasonable people can have. But I do think you need to start by explicitly recognizing -- this is my view; I'm not saying it's right -- explicitly recognizing the need to have a fiscal framework.

Within that context, I would do exactly what, I guess, you said with revenues at 16.5 percent or Larry said 16, I thought it was 16.5 -- it doesn't matter, it's the same thing. They're roughly 18.5 percent for the average of full-employment economy over long periods of time. They were over 20 percent of GDP at the end of our -- Clinton Administration and we had excellent economic conditions.

So, I think we need to have a substantial increase in revenues and the other question is how and should be addressed for all the reasons we know. Larry and Natasha Sarin printed a very interesting list, or menu really, in I guess it was a Boston Globe bet, if I remember correctly, a Center for Budget and Policy Priorities to put out their own menu. You can look at that, Penny, and make your decisions. I sort of agree with a lot of it, don't agree with other parts of it, but I do think we need to be non-ideological. I think, unfortunately, the tax discussion has always been very much involved; always attracts a great deal of ideology, attracts a great deal of politics, and I think we need to put those aside and be serious and thoughtful about what we're doing.

I'll just make one other comment. I do think we need to have progressive tax measures. But I think too often when these are proposed there is a failure to recognize, or to acknowledge, that these can, in some cases not in others, have adverse effects, direct effects on growth. Now, when you combine the increase in the revenues with the uses to which the revenue's being put, then you possibly have a positive effect on growth. But I think that all -- at least I think all proposals, with respect to taxes, should have growth estimates so that make reasonable judgements about what effect it's going to have on our economy, and widespread economic well-being, and on reducing inequality.

MS. PRITZKER: So, Larry, put yourself in the position of Senior Advisor, as you have in many times, what would you advise the President?

MR. SUMMERS: So, it's not our primary subject, so I'm not going to address it. Now, I would not begin with a focus on reducing the budget deficit. I would focus, instead, on creating a more fair society and a more rapidly growing economy. Over time, I think, if you did those things, and you addressed social security properly, and healthcare issues properly, you would work through the budget deficit issue.

I would begin -- my full agendas spelled out in the paper by Natasha and I in this volume. But I would begin with three things. First, a serious effort at tax compliance in America. It is nothing short of a scandal that the audit rate for large corporations has fallen in half of what it was since 2010. It is beyond outrageous that when the government had the bright idea, the obvious idea frankly, which has been used in anti-trust for forever, of going after a large tech company by hiring private sector lawyers to run the case rather than relatively inexperienced government employees. And they were told that that was illegal if those lawyers asked executives of the company any questions. And they were exposed to the view of one former tax official that IRS stood for service; the S in IRS. And therefore, the job should be serving business taxpayers.

Natasha and I argue, I think convincingly, that there are former IRS Commissioners who would be much more optimistic that a proper enforcement effort, that got rid of the stupid stuff, and that brought enforcement effort back to where it was in 2010, relative to the scale tax collections, could raise a trillion dollars over ten years and much of that could be done through executive action. That's where I would start.

Second, I would make collecting taxes from global companies, globally, a central priority. I would do that because I'm convinced that you could raise large amounts of revenue and I would do that because it is important that some globalization project be for 99 percent of a population. Here we just signed a trade agreement, what is there for the average worker? No protection -- no new protection from Chinese imports, a bunch of licenses for Wall Street companies, and nothing for regular workers.

MR. RUBIN: You can have my seat on the left. (Laughter)

MR. SUMMERS: Maybe I should. Nothing for regular workers. The French are wrong to frame the problem in terms of digital companies, and part of the reason their doing it is because they don't have any. But they are right to frame the question in terms of large global companies that use transfer pricing to reduce their effective tax rates to essentially zero. We should make that as, or more, important a priority than we make the next round of foreign investment protections in trade agreements. And if we do that, we'll raise substantial revenue and we will increase the credibility of our institutions.

And third, we should reform capital gains taxation. We should tax capital gains at death rather than allow them to avoid taxes at death. We should tax them when gifts are made to charity. We should tax real estate people who change one real estate asset for another, just like people sell stock and little guy sells stock and buys new stock. We should get rid of that break. And God knows, doesn't it say something about the -- I'll use the word, constipation of our system that we cannot, after all of these years, get rid of carried interest. And that tax break and we should fix it as well. And if we do that, if we do those four things, it will have a very important virtue, which is then we could raise capital gains taxes without everybody going, "oh, it's a horrible thing to do, now we won't be able to raise any revenue". Because if we do my four things, people can run but they can't hide.

And it will generate substantial tax revenue. What we should not do is launch untried, massive experiments. Or pretend that in a world where the total AGI after tax, every penny of AGI after tax, over the next 10 years, comes to about $18 trillion. That somehow, we can raise $12 trillion or $15 trillion just from those at the very top. That is fanciful because, of course, if we try to take 80 percent of a remaining after-tax money away, they'll end up being a lot less after-tax money remaining. But if we do those three things, we will increase revenues by two to three percent of GDP. We will have a more equal income distribution and we will show that government works for the people.

MS. PRITZKER: Tim?

MR. GEITHNER: Sitting next to Larry reminds me about this thing about Larry which is -- is it okay to begin with a compliment about Larry?

MR. SUMMERS: It’s okay with Larry, but Bob will feel a need for equal time. (Laughter)

MR. GEITHNER: Larry would say, I’m going to make three points and he’d make the three points, and they were awesome points. But then there’d be another point, but no, you said it was only three points. (Laughter) But they were always good, and the fourth point was pretty good, too.

So, I don’t know, I would associate myself overwhelming with a basic case that is presented here that we need to think about, as maybe the dominant economic policy political challenge is try to figure out how to raise more revenue. There’s lots of compelling arguments for that. You know, we live in a country with stunningly high rates of poverty for this level of affluence. We have, you know, massive inequalities in access to education, healthcare. We have a safety net, which I would say is really thin. Not savagely thin, but thin relative to our means. We live in a dangerous world; it's a scary world. It's likely to be scary in a way that requires resources.

You could go on, we have commitments made to healthcare, retirement, that are way beyond the measures we've identified to finance them. You know, you have to take a view as, I think Bob eluded to, you have to take a view on what's the fiscal constraint. What's the view of debt sustainability you have to live within. And even if you're comfortable with, I think as Larry would say, you can take risks. We used to think about how far you can let debt rise at zero GDP. It's unlikely you can defy gravity, indefinitely, without taking a lot of risk. And you have to start with the observation that, we're two to four percentage points of GDP away from stabilizing the debt dynamics at a tolerable level.

So, there's lots of good reasons why you have to confront this basic thing. I felt very lucky in my life, in my youth, growing up working with people like Bob and Larry in administrations where you -- people, I worked for, wanted you to start with what you think is right; what you think makes the most sense and then decide can you relax the political constraints on achieving that.

I think tax policy is darker and different because you have to actually begin with a plausible argument about what's the level of resources you can get out of the system in a relatively progressive way without doing undo damage to incentives and growth. And those numbers, based on how we understand them, I think, are -- those numbers are, if you're an optimist you'd say, "gee you could do a fair amount". But that capacity is not large relative to all these claims on revenues.

Larry and Natasha's paper says two percent of GDP without exciting revolutionary regime change in how we tax income wealth. But, you know, you have ambitions and plausible arguments for what you do with public policy on the safety net or other public goods, which themselves are expensive and it's just to, you know, get within the zone of comfort on the debt dynamics, would spend that, all that room. So, I think, you have to start with an argument about what is the plausible envelope of things you could do. And then figure out how you make trade-offs within that.

That requires a judgment about what fiscal risks you want to take long term and requires a judgement about priorities across all those potential claims on the scarce marginal dollar of revenues. So, yeah, I wouldn't start with taxes as a political strategy. I wouldn't start with taxes as the animating framework for economic policy. I'd start with a judgment about what's the broad fiscal constraint you have to consider you're going to live within; what risks you want to take. I'd think about what your priority is for what you do to the safety net to public goods, a range of other things like that where we seem short of what's essential.

And then, I'd try to figure out, okay, what's a plausible strategy, political strategy, to expand the frontiers where we think is possible because we're not close to having addressed that. Just one last point. I think we all share a judgement that's reflected in this book, in this framing as you explained so nicely, that, you know, we need a strategy to produce meaningfully more revenues. But, you know, we're like the sound of one hand clapping. Like, I don't know that that reality is accepted beyond a, you know, a -- beyond a -- you know, a -- we're short of a political coalition that can legislate on the base of those beliefs. But that's more than enough to begin with.

MS. PRITZKER: One second, I'm going to get to Bob. I want to remind the audience, we're going to take questions and there're cards on either side and just raise your hand, someone will give you a card, and they'll get up to me. And we'll spend the last 15 minutes doing questions. Bob, I think you had a comment and then Larry.

MR. RUBIN: Yeah, mine is -- there are not necessarily connected comments, okay, a few things. One is Larry suggested we have taxation -- realization at death, I think we should get rid of stepped up basis at death. I never understood what the rationale is for stepped up basis at death, I would not have realization of death. We can debate that, it's reasonable we disagree.

I think that we should have higher corporate rates and I think when rates were at their old level, the world I know a little bit about, if you said to CEO's that rates are going to come down to 28 percent I think that most of them would have said good and if you would have said 25 percent they would have said terrific. So that's something we could do, I think, at no cost in terms of economic growth.

I think climate change is the existential issue of our age, but I'll go back to what I said at the beginning. I think to deal with any of these things you need to have a fiscal framework. Now, your fiscal framework could simply be to say we're not going to worry about fiscal things right now. But then you have to make a -- I wouldn't make that decision, but one could.

Tim raised a point that I think is really critically important. Many members of Congress, conservatives in Congress, have signed a pledge to not raise taxes. I don't think that, we as an economy, can succeed without having increase revenues. And I don't think that those kinds of decisions should be based on -- what I at least think -- are either ideological or political considerations than encapsulated in a pledge not to raise taxes. I think all issues, including things I care about, I think what you should have reasonable discussion around facts and analysis. And I think this one particularly needs that.

And unlike, I think, Larry and maybe unlike Tim, I don't know, I would make that part of my initial discussion because I'd have a fiscal framework and in the context of the fiscal framework I would also want to think to myself -- not myself, I would suggest to the President, think about how he's going to pay for what he wants to do. But if one wants to say let's not worry about that for now, we'll worry about that later, that's a decision one would have to make.

MS. PRITZKER: Larry?

MR. RUBIN: Oh, okay, just have one thing. I think that the people who care about this issue and who feel as I feel and I think all of us feel, we have to substantially increased revenues, need to figure out how to make that case to conservatives. And I actually think, there’s a very good -- I won’t take your time to do it right now. I actually think there’s a very good case that can be made to conservatives if they believe in a market-based economy, and then they believe as a result that we need to do all kinds of measures to underpin that economy, unless they want to say we’re going to deficit fund it, they should be in the position of saying we do need additional revenues.

MR. SUMMERS: I think I only have two major points. The first is that it’s a virtue of a three-part program I laid out; compliance, fixing the corporate tax globally, and capital gains. That those are three things that I would be prepared to argue would make the economy function more efficiently and make the society more equitable, whether we needed revenue or not. And so, starting with good tax reforms that will make the economy function better before you get to things where revenue’s good, but the tax has various adverse consequences, seems like where you should start. And it avoids a lot of the controversy and that’s why I chose those three items from Natasha and my longer list.

The second is the -- is a fundamental question. It's always, I think, it's actually the most fundamental question, which is not addressed in this book by design. And that is, you can argue with Natasha and my two percent number but you're not going to defend five percent as what you can get from people who don't think of themselves as middle class. If you look at Europe, if you look at the successful, progressive places in Europe, none of them have the strategy that is behind most the rhetoric of the democratic party. Which is, what we need to do is raise a lot of money from rich people and have a lot of programs.

They all think in a way that actually, respectfully, contradicts what you said in your introduction, Penny, and what Bob said in his foreword. They all think that it doesn't -- that the payroll tax is a contribution to support social programs. And so, saying that we grew the social security system, we now have a more generous progressive social security system, and therefore, a higher payroll tax and therefore we have a more regressive tax code than we used to, is kind of illogical. And that what you should have is, yes, you should do things with respect to the high income. But that the central way you have a more progressive society is you have a set of benefits that are the same for everybody or targeted for poor people, that are paid for by taxes where people have an income of $150,000, pay three times as much in taxes as people who have an income of $50,000.

And so, I think the right strategy, if you want to get the substantial increase in revenue that we really need, is to do it as a component of entitlement reform. That in appropriate ways, makes the programs more generous, it trims things that should be trimmed and that the paradigm that is -- runs through a ton of this analysis, that treats the payroll tax, which is the largest federal source of revenue, as a tax, and thinks about the overall progressivity of the tax system, is actually the wrong way to think about things. And that the first stage of analysis should be desirable things to do with respect to high income taxation that would be desirable, sort of almost regardless of your fiscal position.

And the second thing to do is to think about fixing the large systems of government, social security and Medicare, in rational ways on their own terms. And I believe if you did those things, you actually could get to an expanded, more generous government with a reasonable set of fiscal prospects, and that it's the better way to go. But that requires that it not be a test of being progressive. That you promise that not for -- not to save the planet with a carbon tax, not to treat widows better under social security, not to do anything, will you ever raise a tax on anybody who thinks they're middle class, which is basically 97 percent of the population. And that as long as that's taken as an axiomatic test of being progressive, we're only going to make a certain amount of incremental progress.

My strategy is designed to enable us to make that incremental progress if that's all that's possible, because it's really much, much better than nothing. But to leave open the question of doing things as you reform social security and Medicare that have a positive fiscal impact. Rather than putting political leaders into position of having to say we need to do this really painful stuff that everybody in our party has promised not to do, and what we'll get for it is that according to some math about R minus G, we'll have a more sustainable fiscal trajectory. Which I think is a pretty dismal political strategy.

MS. PRITZKER: So, Bob, you -- so much to follow up on.

MR. RUBIN: We could have an interesting debate on fiscal policy, probably don't want to do it now but I'll agree with Larry on one -- a lot of the stuff he says is wrong, but I'll agree with him on one thing. And that is, this is the debate that the new president should have in the transition. Figure out where he or she wants to be. Yeah, Penny.

MS. PRITZKER: And Bob, where would you go with -- you talked about progressive tax --

MR. RUBIN: Yeah.

MS. PRITZKER: -- structure.

MR. RUBIN: Yeah.

MS. PRITZKER: Give us some of your thoughts on this topic.

MR. RUBIN: Well, I said them before. I'd increase the corporate tax, I'd increase the individual rate, I don't know at what level but to whatever level. I'd get rid of stepped up basis at death, I would not do realization at death because I don't quite understand why you would do that. I think --

MS. PRITZKER: What would you do as it relates to the middle-income taxpayer?

MR. RUBIN: Well, Larry raises an interesting point.

MR. SUMMERS: Don't you think 50 years is enough for Mark Zuckerberg? Like, really. If Mark Zuckerberg started the company --

MR. RUBIN: Don't I think what now?

MR. SUMMERS: -- and the company's worth $100 billion --

MR. RUBIN: Yeah.

MR. SUMMERS: -- and he dies.

MR. RUBIN: Yeah.

MR. SUMMERS: Like, really, what would be unreasonable about asking his estate to pay that capital gains tax?

MR. RUBIN: Well, then it's a -- well, okay.

We probably will have different views on this, I don't feel badly for Mark Zuckerberg particularly, but I don't see why death should be a realization event. I mean, you could have a wealth tax if you want it. I think you're not totally in favor of that, but you could have one. You could have market to market accounting, if you want. It's the same sort of idea. So, you're in favor of that little group and I'm not in that group.

MR. SUMMERS: Well, transfers. There is a kind of simple principle which is transfers an event just like transfer to your heir, transfer to a charity --

MR. RUBIN: Yeah, but that's with --

MR. SUMMERS: -- but they're both events.

MR. RUBIN: I know, we spend a lot of time together where you tell me what I should think but let me make one comment. (Laughter) And you're probably right for the most part but I try to think --

MR. SUMMERS: You tell me what I think.

MR. RUBIN: Well there, I am right. (Laughter) But anyway, I don't know why death -- you have an estate tax or an inheritance tax if that's what you want. But that's your tax on the passage of the asset. I don't see why you should also have realization at death but that's a reasonable thing. You know, people could reasonably disagree about that. Well, actually, I don't think they can. But in any event, I like to say that because it's a good thing to say.

Anyway, those are some of the thoughts, Penny.

MS. PRITZKER: So, Tim, I'm going to ask you a little bit change of subject but, talk about economic growth in tax --

MR. RUBIN: Oh, oh, I'm sorry.

MS. PRITZKER: Yes.

MR. RUBIN: Also, the pass-through deduction doesn't make any sense as far as I can tell.

MR. GEITHNER: I -- can I just start with a --

MS. PRITZKER: Please, comment.

MR. GEITHNER: No, I wasn't going to go on that. I think this is a -- to me this stuff feels different than most of the economic policies I've had to deal with in the sense that, I don't think this is a challenge of ideas. It's not a challenge about knowledge. It's not like, you know, the average challenge from a tax policy is more than good enough. The challenge that's hard is, we know a lot of the trade-offs and the efficiency costs for a lot of things. I think the challenge is just overwhelmingly a political challenge about -- which we touched on, and that way it feels -- I feel like, you know, if you think about how do you want to decide what's plausible and how to relax the frontier and what's possible and how to think about the trade-offs. You need a mix of talent which is, I think, dramatically different, that's true for most economic policies, which is you need a -- you usually need a high ratio of, like, economic talent to other types of skill things as the inverse.

Anyway, your question is about growth. You know, I was going to ask Larry this question and Larry's the best person to ask this question. Which is, that -- let me frame it as a question.

MS. PRITZKER: Mm-hmm.

MR. GEITHNER: Which is, you know, I think that there's more pragmatic evidence and knowledge around -- to use against the classic arguments you hear that if you go higher than where we are in marginal income tax rates or you go higher than where we are today on the corporate income tax rates or you go higher than where we are today in capital gains tax, it's going to be catastrophic for incentives and the growths are existential. That's ridiculous. And I think one thing that's sort of helpful to see is there's broader consensus that you could go significant distance from where we are, revenues this year of GDP, and even the instance on capital and higher income, without fear that you're going to do meaningful damage to growth. A lot of the papers in the book are good about -- are good at saying that. But, you know, I think it's also good to know, but yeah okay, how far could you go? And are -- you have to set some limits.

And I'll just make an analogy to the fiscal framework we're evading. If you spend your time, not to be unfair to Larry and Jason, but if you spend your time telling people that we can comfortably live with a rising debt to GDP ratio that goes, like, way beyond where we've plausibly managed before, I don't know how you get any president to agree that they have to think about how they raise taxes to finance anything.

So, I think there's a set of -- you have to anchor your judgement about this stuff in some set of limits and gravity. There's no perfect knowledge around that. It's about how much risk you want to take, and I think it's true on how you think about the growth of X2 (phonetic). It can't be true that you could go do four percent of GDP, I don't know, without touching 90 percent of Americans or 80 percent of Americans, without some risk that you have efficiency costs, you know, as threats to growth. So, you know, I think having some sense that even if the -- you could go a significant distance without fear of that, you have to have some framework around what that is.

I'm not sure what is it, when I listen to Larry on this stuff, you're totally compelling and savage on helping people understand the ease of evasion and to suck all the unrealistic illusions about how much revenue you can raise with this stuff, and about the efficiency cost of people optimizing the evasion. But there must be a way to frame it, too, around what risk of damage you do to incentives and to growth. So, I'm asking -- I'm priming your thing as a question for Larry because I'm not burdened by knowledge about that stuff.

MR. SUMMERS: So, one person's -- I learned to say this from Bob but I don't really mean it. (Laughter) One person's view. That humility is utterly false. (Laughter)

MR. RUBIN: On your part.

MR. SUMMERS: On my part, yeah. Be honest with one's friends. (Laughter) I'd say a couple things. First, on the progressive agenda going from eliminating stepped up basis, to going to constructive realization is a modest step. It is much more modest than wealth taxes, much more modest than market to market. Much more modest, according to most people, than raising the rate up to 60 or 70 percent. And so, if you think it's kind of dangerous, and it makes you uneasy, then to be consistent, you have to think that most of the full progressive agenda also makes you a bit uneasy. And I think it makes -- I don't think it's about how much revenue you raise, I think it's about what you do.

I don't think -- I don't think making people obey the law and provide credible enforcement will, like, divert resources back from tax evasion into doing productive --

MR. GEITHNER: We're giving you that. The questions how far would you go beyond --

MR. SUMMERS: Okay, so I think doing that -- I think my capital gains thing --

MR. GEITHNER: No, I've heard you go beyond that.

MR. SUMMERS: I think if you start going above two percent, you are -- from the top one percent -- you are doing damage to growth and efficiency. The question is to how much and whether it's worth it, and I think it's very important to figure out what the best things to do are that will minimize the disruption. But I don't think it's right to take something that's, in a lot of people's plan, extending the social security tax rate all the way up to all incomes, even with some donut for people between $120 and $250,000. That will have substantial effects that will be measured on incentives.

I mean, we have a kind of natural experiment. Which is we've gotten rid of state and local deductibility. That doesn't matter in Florida because there weren't any taxes practically on income. That matters a fair amount in California and New York and it's showing up. I mean, it's showing up in the fact that people are moving, and they can't move out of the United States. But it's also, as best we can tell, kind of of showing up in how much income they are reporting.

So, I think it's very important to think about things where you're correcting a distortion rather than things where you're just raising rates. The capital gains thing is the basis of all tax shelters. It's the basis for real estate tax shelters, it's the basis for energy and gas tax shelters. When you correct that, you're kind of making the economy more efficient. When you raise rates, it might not be that bad, but there isn't any argument that you're doing good and same thing with putting in place new taxes. That's the essential argument of Natasha and my paper.

You guys are really intent on, like, we've got to have a fiscal framework and think about the deficit and all that, and I like to do that. I'd like to have full intertemporal budget --

MS. PRITZKER: Okay, Larry, I'm going to

change it though a little bit --

MR. SUMMERS: Okay.

MS. PRITZKER: -- and throw in a wrinkle for all three of you here.

MR. SUMMERS: Okay.

MS. PRITZKER: What about a carbon tax?

MR. GEITHNER: Hold on. I had two more things I wanted to say.

MS. PRITZKER: Yes.

MR. GEITHNER: I'll just say this. I think, Larry, unless you give -- we're talking about what you would say to a new president who has to chose how to govern. And if you can't -- if you don't start with some basic foundational understanding you can give that person, that says what's the constraint you have to say you're going to live within. And what you think -- what determines the limits of how far you could go without some risk to damaging the foundations of growth. I think you have to start with that, as appealing to you and you sort of -- you did in your paper an excellent thing saying that. I think that's an important thing to do because if you don't do that, then how do you resist the overwhelming pressures that are going to be on a new president with, you know, tentative views about how to use his or her capital, about how you make these trade-offs. That's all I'm saying in that case but I'm stipulating your thinking --

MR. SUMMERS: Just to be clear, my answer is I'd like the president to do everything including your fiscal program but I know the new president's going to have limited political capital and getting something important done about carbon and not doing anything about the deficit is better --

MR. GEITHNER: Yeah.

MR. SUMMERS: -- than doing something about the deficit and not doing something about carbon. Doing something about the set of forces that are causing the middle class to feel completely disillusioned from our country, at the cost of deferring a problem for a decade. I think that's a good trade because I think doing that gives us a better chance of having a functional government to a decade ago. So, I'm, in principle, fine with your thing. I do think, and you may or may not agree, that the Obama Administration made a serious error, largely driven by external political forces, towards pivoting to stuff about fiscal responsibility when it should have been focused on keeping the -- keeping it's foot on the accelerator in an economy that was slow.

Now, I don't think given political reality there was an enormous amount of choice about that. But I actually think we've made as many mistakes in the United States over the last generation of being excessively deficit preoccupied when we should have been doing other things about the future as we have of being insufficiently deficit preoccupied.

MR. RUBIN: I think just one --

MS. PRITZKER: Briefly and then I'm going to get one, at least one, audience question in.

MR. RUBIN: You may but you got to wait. (Laughter) Okay, I think the place Larry and I might have slightly different views is, I don't think there's a dichotomy between helping the middle class and having a fiscal framework. I think a new president has to know should I just deficit fund everything, which is fine if that's what you want to do. Or should I have some other set of constraints in mind. And that's the only argument I think Tim and I were making, and I would have some set of constraints because I don't think you could just indefinitely deficit fund. But that's a decision new president can make, and new president can make whatever decision they want.

MR. GEITHNER: I wasn't trying to provoke you on the fiscal thing, I was saying that in addition to your fiscal thing, you can choose what it is, you have to have one. And you have to decide how much risk you take, but I think you still have to say that -- you have to explain again, and you sort of said it. You said if you're going to go beyond two percent of GDP on the top one percent, you're going to be put at risk instead of other better things. That's another way of thinking about it in some sense. But I think that's important too. So, you're anchoring the trade-offs for people in a way that has some good foundational economics behind it. Because without that I think nothing's possible.

MR. SUMMERS: I guess that --

MR. RUBIN: Poor Penny.

MS. PRITZKER: Okay, no. I'm going to

interrupt here and just basically I'm going to ask my question because I think the debate here is not going to get resolved on this stage. (Laughter) So, with all do respect to that, I'm going to move on and just start with a question about shouldn't a carbon tax be front and center in a discussion like this? And the commentary here is basically depending on the tax rate trajectory, a U.S. Greenhouse Gas tax would score out as raising from one to over $2 trillion over ten years. And so, how do we factor that in? And it seems to be -- that conversation seems to sit outside a conversation about tax policy.

MR. RUBIN: Yeah, but the response to that could be, Penny, that climate change -- well I believe that climate change's existential, will change life on earth if we don't deal with it. Most economists seem to think the carbon tax is what you need but then the question is what do you do with the proceeds? And that I think is where you -- people who know much more about politics than I do say you cannot get -- even if you could get a carbon tax, it will only be if it isn't regressive and that means taking the proceeds and returning them to middle-income and lower-income people, I think.

MR. SUMMERS: I think that's here Bob and I completely agree. I think it's imperative to have a carbon tax. I think if your idea is that the revenue from a carbon tax is going to be for anything other than giving the money back to the people who find it regressive, or investing in clean energy, you're smoking something. So, I think you cannot realistically think that the carbon tax is a contributor, either to deficit reduction or to your other national needs.

The other thing I would say is, I will -- I predict -- I'd say I'm 75 percent confident to this prediction, that five years from now there will have been a significant evolution in view towards the view that we will solve climate change by making clean energy cheap. And away from the view that we'll solve climate change by making dirty energy expensive. And I just think that is where some combination of the scientific progress, which is faster than people expect it to be, much faster, and the political reality will take us.

MS. PRITZKER: Yeah, my own experience of this is sitting on the board of Microsoft. We just made a huge announcement that not only are we going to go carbon negative but that we're also going to, basically, actively remove carbon equivalent to what Microsoft estimates it's contributed.

MR. RUBIN: By when, Penny?

MS. PRITZKER: By 2050. And the process of doing that, which I think gives a little bit to what Larry is saying is, internally we have a carbon tax in the company and we're using that money to fund our efforts and we're doing it for stage one, two, and three emissions. So, we're actually going all the way to our supply chain. And the third aspect of it is, putting money aside, a billion-dollar fund, in order to be able to innovate. Because innovation is happening very fast and that's very exciting, I think.

I want to move to another question about international tax cooperation. Larry, you mentioned this early on, others have referenced it. How important is that? Is that as important as, let's say, IP protection?

MR. GEITHNER: You've just given him such a softball.

MS. PRITZKER: Okay, good.

MR. SUMMERS: It’s much more important.

MR. GEITHNER: It’s one of his favorite issues.

MS. PRITZKER: All right.

MR. SUMMERS: It’s much more important. It’s much more important because it has major impacts on the majority of a population rather than on shareholders who are not a majority of the population and a third of whom are foreign.

MR. RUBIN: Actually, they are a majority if you count pension funds.

MR. SUMMERS: If you count pension funds most whom -- with a substantial part of the pension funds being defined benefit pension plans.

MR. RUBIN: It’s a defined contribution, yeah.

MR. SUMMERS: No, you won’t get your more than half if you include defined benefit pension plans when a shareholder’s -- whether or not the beneficial owners --

MR. RUBIN: Right.

MR. SUMMERS: -- of the shares. And it’s

important for legitimacy and fairness and all of those various things and I just ask you, do we really need 130 years of intellectual property protection for Mickey Mouse in Asia in order to have incentives for people to innovate? Of all the various arguments about -- bogus arguments about the need to do things for economic growth, the intellectual property abroad argument might well be the single most overstated. Because what people don't recognize is that most of the -- a substantial fraction of the time, I don't know that it's most. Today's intellectual property is an input into tomorrow's intellectual property. And so, when you raise the price of intellectual property, you're raising the price of a better chemical compound to Pfizer when Pfizer wants to develop a drug and that's reducing the effectiveness in producing economic growth.

MS. PRITZKER: Okay, one last question for all of you from our audience, VAT tax, probably politically infeasible.

MR. GEITHNER: Larry's got the best quote of the generation on the politics of the VAT which you should ask him to repeat.

MR. SUMMERS: I --

MR. GEITHNER: Really, I mean, maybe of 50 years.

MR. SUMMERS: You just raised expectations excessively. (Laughter) Substantially, excessively for how good this is going to be. But what I've always said is, that we've never had a VAT in the United States because conservatives think it's a money machine for government and liberals think it's regressive and we'll get it when and if we make the European kind of decision that liberals conclude that it will let us have an adequately funded generous government and conservatives decide that if we're going to have a tax it's best to have a regressive one and so that's the day when we will get a value-added tax and I don't think it'll be soon.

MS. PRITZKER: All right. Any final comments, gentlemen?

MR. RUBIN: I'll make one quick comment, Penny.

MS. PRITZKER: Yes.

MR. RUBIN: I think the tragedy of America in some ways, Penny, is the kind of serious discussion we’re having right here and the serious discussion that’s in that book and all the rest is so divorced from the way government is functioning today.

MS. PRITZKER: Yes.

MR. RUBIN: The late Marty Feldstein said to me once, on fiscal matters, he said, if I was a conservative republican willing to compromise would sit down with a liberal willing to compromise, we could solve most of these issues --

MS. PRITZKER: Absolutely.

MR. RUBIN: -- and find ways forward. And yet -- we could do this on the stage, we could do it with the context of the Hamilton Project, Brookings -- but it’s totally divorced from the way our political system functions.

MS. PRITZKER: And on that happy note gentlemen, thank you very much. (Applause)

(Recess)

MR. SHAMBAUGH: All right, great. We're going to get started if people could take their seats. So, first I'd just like to thank our first panel again.

That was a fantastic way to kick off this afternoon and so thanks to them. And thanks especially to Penny Pritzker for moderating. That is not an easy bunch to moderate.

So, welcome to our first panel about some proposals in the book, *From financial transactions tax to a VAT: Policy options to raise revenue*. So, the last question and I didn't in fact suggest that Penny end with that. But our last question in the last panel was about a value added tax and that's one of the things we'll be talking about today.

So, we've heard in the last session and we'll hear quite a bit more over time about different ways we could, in some sense, change our current tax system to raise substantial amounts of revenue in progressive ways. What we want to do on this panel is actually think about some different types of taxes. And in particular, about some taxes that we don't use very much in the United States or not at all, especially at the federal level.

Historically, taxes on transactions actually filled up a large chunk of how revenue was raised by governments. In particular, if you think of tariffs, tariff revenues being one of the main ways governments were funding themselves at various points in time. Not only that but now at this point essentially, all countries have a value added tax with the exception of the United States. And a number have either tried or currently have a financial transactions tax at some level or another.

So, in this session, we want to think about these different options and think about whether in addition to what everyone wants to do with the overall tax system. If we should think about ways the United States could use different types of taxes to augment the federal revenue system.

So, with that said, we have a terrific panel to talk about these issues. Their bios are in the program so I'm not going to go through them in detail but just quickly introduce them. Starting on my far left, Bill Gale is the Arjay and Frances Fearing Miller Chair in Economic Studies at Brookings and co-chair of the Tax Policy Center and is the author of one of the chapters in the book.

Immediately to my left, Antonio Weiss is a research fellow at Harvard Kennedy School. In addition to many positions in finance before that was also, at the end of the Obama administration, counselor to the Treasury Secretary. And he is the author of one of the chapters in the book joint with Laura Kawano. And in the middle, we have Catherine Mann who is the global chief economist at Citi. In addition to a number of policy and academic roles, immediately before that she was the chief economist at the OECD.

So, I also just want to remind you as mentioned in the last session, we'll take questions from the audience on note cards. So, if you -- people will be walking around and if you'd like to ask a question, please just write it down and send it on up.

So Bill, I'd like to start with you to just in some sense, you wrote really detailed and cogent chapter for us. And I wonder if you could just kind of walk through your proposal, how would suggest the United States raise more revenue today?

MR. GALE: All right, thank you. Larry saved me the detail of quoting his quote from 30 years ago but

I will come back to it at the end. Because I think it not only is it an excellent statement of the problem but also shows us what the solution should be.

So, I'm thinking of a VAT in this paper as a compliment to not a substitute for direct taxes on high income households. Whether they're wealth taxes or capital gains taxes. I think even if we do raise those taxes, we're going to be in search of additional revenue. This paper puts forth the VAT as the candidate for that additional revenue.

A VAT is relatively unknown to people in the U.S. but it's known to people everywhere else in the world because 168 countries have it. We're the only major country that does have a VAT. It's basically a national sales tax. You can think of it like a retail sales tax but a retail sales tax, all the revenue gets collected at one point when the retail sale occurs. In a VAT, the revenue gets collected in little chunks at each stage. As the farmer sells the wheat to the baker and the baker sells the cake to the store and the store sells the cake to the consumer.

There are some big advantages of value added tax. One is they can raise an enormous amount of revenue and I'll give you an example of that in a second. The second is really important. They've raised that revenue without distorting saving choices, investment choices, organizational form, financing, retain earnings. They basically leave capital income choices untouched which is a big advantage.

And then third, they have some administrative advantages over retail sales taxes which is why countries have moved to value added tax. No country has a major retail sales tax. 168 countries have significant value added taxes.

So, if we were to design a value added tax in the U.S., we would want a very broad consumption base. We would want to border adjust. That is, we want to exempt exports tax, imports. We would probably want to exempt small businesses and we would want to adjust government spending to account for unintended effects. For means tested items, for example, or Social Security, we would want to adjust that to inoculate the recipients from any rising increase.

What I would like to add to that is a

universal basic income equal to the federal poverty line times the VAT rate times two. And what that would do would help make the program more progressive. If we did that, what would the results be. Well first on the revenue if we did not do the UBI, the VAT, a 10 percent VAT would raise $10 trillion over the next decade. That's an enormous amount. If you do the UBI I mentioned, that pays back seven of that. So, you end up with about 1 percent of GDP or $3 trillion over the decade even after you've paid the UBI.

The long term growth effects on the economy, of course, depends on how the revenue is used. But certainly, you can say a VAT is a more efficient way to finance any given use of revenues than most of the other alternatives out there. And also, the distributional effects of this are very advantageous. The bottom quintile gets a 17 percent increase in the after tax income. The middle quintile essentially is a wash. The top quintile pays an extra 5 and a half percent.

So, given all these advantages, why don't we have a VAT. And this comes back to the quote about liberals think it's regressive, conservatives think it's a money machine. It should be easy to fix those conceptions. VATs can obviously be part of a system that advantages low income households. That happens in Europe, that would happen in this proposal with the UBI. It could happen in this proposal as well with additional spending for low income households out of that revenues.

And for conservatives, the concern about the money machine has always been weak. The metric evidence and kind of the explanation of what's going on in Europe is that the VAT ended up replacing less efficient consumption taxes. Turnover taxes, gross receipt taxes, ring taxes. About 80 to 90 percent of the increase in VAT revenue was just replacing other consumption taxes. But in the U.S., if we were to do a VAT, it would be part of some long term fiscal framework like was discussed before. And that presumably would put a limit on spending and hence, would assuage fears about the money machine.

So, I think I can see intellectually a path to get to the VAT. I'm not going to argue that in the current political environment we can do that or really do anything. But this is an idea, I think, that's well formed, it's on the shelf. When politicians are ready to take ideas off the shelf, the VAT should be one of them.

MR. SHAMBAUGH: Great, thank you. Antonio, I'd like to come to you next. So, you and Laura are also considering a tax on transactions but in this case, a very specific set of transactions. And so, I'm wondering if you can just walk through kind of why you think a financial transactions tax is a sensible idea and how specifically you would want to implement one.

MR. WEISS: Sure. So, Laura and I propose a financial transactions tax, an FTT which is essentially a fractional tax on trading in stocks and bonds and derivatives. And FTT is not a new idea. It has existed in the UK in the form of a stamp duty since 1694. It exists in various forms in countries around the world. Some somewhat successfully, some not so successfully. And there is an academic literature from Keynes and Tobin through Stiglitz and Summers that talks about what the purported policy implications are of an FTT.

So, our FTT would apply 10 basis points to the trading in equities, most bonds and most derivatives.

There are some exemptions notably for treasuries and money market instruments. Why 10 basis points? Well, if you look at the cost of transacting, for example, in equities which has come down very much over the last decades.

You know, one estimate is an institutional investor pays around 50 basis points 10 years ago in direct and indirect costs. And that that has come down to around 33 basis points, .33 percent most recently. And so, an FTT on the order of 10 basis points would merely be restoring costs to levels that prevailed in the not too distant past.

On the other hand, we have very little empirical evidence to underpin that number. It could be another number, it could be somewhat lower, it could be somewhat higher. And so, we think it's important to phase in the tax. So, we start at 2 basis points at the outset and we suggest an annual review which would result in 2 incremental basis points until it hits 10 at the end of 4 years. And that annual review would review actual market data and inevitably the tax avoidance techniques which would arise in financial markets in order to close loop holes.

So, with that phase in how much does it raise, it doesn't raise Bill's trillions of dollars, it raises a lower amount. It raises an excess of $500 billion. $50 to 60 billion once fully phased in so it's real money and it's highly progressive. So, if you look at the top quintile, it would be 70 percent paid by the top quintile.

If you think in terms of annual costs as it's been scored by TPC and you look at the bottom three quintiles, the annual cost would be around $10 on the bottom quintile of incomes, $60 on the second to bottom quintile of incomes and $160 on the middle quintile of incomes. The top 1 percent would pay around $12,000, so very progressive and the figures are even more concentrated by wealth than by incomes.

So, a fair question is what claim to make about the FTT beyond all of that. Namely is it Pigouvian like a carbon tax that was just discussed. So, is an FTT Pigouvian? Well, in the last 20 years, there's been an absolute explosion in trading. There has been an eight fold increase in the trading of equities. Much of that is due to financial innovation, high frequency trading, algorithmic trading, quantitative strategies and the like.

Our proposal has an elasticity assumption which results in a 50 to 60 percent reduction in trading. So, if you think those things are good and have made financial markets more efficient and the allocation of capital in the economy is functioning substantially better today than it did 10 years ago or 15 years ago you might think this is a bad thing.

If, on the other hand, you think that all of that or much of that is essentially rent seeking behavior and does little to actually enhance the allocation of capital to the real economy which is a position that the FCA took in a paper published in the UK on Monday, then you might think that that is absolutely fine.

My own point of view is that some reduction in HFT and algorithmic trading could be a good thing or at least not terribly costly. And so, when you think of all of that together, you end up with a tax which is raising a fair amount of revenue doing it in a progressive way in way that does not hinder fundamental price discovery or harm financial markets in our judgement. And may even have some salutary effect.

MR. SHAMBAUGH: Great, thank you. Catherine, I'd like to come to you and maybe just to open up, think a little bit about how you see some of the core challenges one faces to raise revenue in a global economy. And how getting a tax regime that works in that setting is important.

MS. MANN: So, thanks. I sort of feel like I'm straddling my current job which is chief economist at Citi and my previous job which was the chief economist at the OECD in Paris. Because both of these tax proposals or tax analysis does have implications in the international context. And so, I wanted to check with Larry very briefly as he left the stage to make sure that he wasn't going to take what I was going to say about the OECD's proposal and strategies to deal with the international tax issues. That he hadn't mentioned it was not that he didn't think it was useful.

So, there is this -- the OECD has played an important role in trying to improve tax compliance in the international environment. Now different countries use taxes for different purposes. I mean, taxes are often used in order to attract economic activity maybe reduce certain kinds of economic activity. But at one point in time, it was about 5 or 6 years ago, all of the countries in question sort of got together and they said, are you getting any tax revenues when you put your taxes in place. Are you losing taxes revenues? And it turned out nobody was getting any tax revenues.

And the reason why was because there was very effective tax planning both at the individual level as well as the corporate level to reduce tax liability. And so, out of that came two strategies of transparency and compliance that involved getting tax authorities in different countries to communicate with each other and with their financial system. The first avenue was the automatic exchange of information which was across tax authorities and banking systems to create transparencies about where people were putting their wealth.

And the last example of that that came out of course was the Panama Papers. So, that was the first effort to create transparency, to improve compliance and to generate tax revenues for individual economies.

The second, which is a bigger strategy, is base erosion profit shifting BEPS. This is done -- started at the OECD research program, ultimately embraced at the G-20. And the strategy is to have multinationals report on where their revenue is being raised so that the tax authorities can tax where the revenue is raised and the profits are created.

Now 85 countries have signed a multilateral instrument that creates an environment where the tax authorities get the information from the firms about where they are generating their revenue so it can be taxed. And again, the argument is is that nobody was getting any tax revenues. And so, the whole point of tax arbitrage was down to zero and it wasn't like the U.S. was not getting revenues but some other country was, wasn't nobody was getting anything.

So, the numbers that come out of that was about $250 billion a year of revenue being raised that was lost to tax arbitrage before. Now how does that kind of, the magnitude of this type of loss is relevant. And now what can we think about how the relevance of these kinds of understandings might be in an international context.

So, one is we have to think about substitution, internal transactions in the case of multinationals are the avenue through which this kind of tax planning was taking place. I could argue in the context of the FTT we have to consider alternative instruments across different kinds of instruments being in the manner in which substitution might take place.

Arbitrage, is it across countries or across different kinds of instruments if we're thinking about these two different types of taxes. Where is the tax incidence going to take place? I think that still has to be addressed in either one of these and the third dimension being the countries. And then I think the legitimate question about these two different tax opportunities are what exactly is the objective. Because sometimes it's to change economic activities. Sometimes it is the change the incidents across different income groups. Sometimes it is to raise revenues.

And I'm not going to argue that the three are inconsistent but there are different margins on which you are going to be successful or not successful. When you take these multiple kinds of taxes and put them into an international environment where there is differences across countries. Where there is very active tax planning on the part of institutions, large institutions whether they be financial or goods and services providers. And so, I think you need to take these two into the international environment in order to evaluate how successful you're going to be on those three margins of, you know, changing the activity, changing the progressivity or changing the revenue raising.

MR. SHAMBAUGH: Great, thanks. I wanted to follow up really quickly with one question which is, you mentioned that, and I'll come to Antonio on this in a second. But that one of the things with the financial transaction tax you'd have to think about is how it sits in a global environment. I'm curious if this set of concerns makes you think more highly of a VAT or less. Because it seems like it is in some ways, geared to avoid some of these challenges of where did income or profit take place.

MS. MANN: The problem with, so you cannot do a VAT in the absence of very clear identification of where the activity is taking place. Because otherwise, any activity that is within the multinational whether it be financial or not, internal transactions are not priced at arm's length. And yes, there is an enormous, enormous whole, you know, business model on transfer pricing. And so, that is a key element of whether or not you're going to be able to raise the revenues that you think you're going to get. And sort of transfer pricing in the financials sphere is, you know, just guess how many people could work on that.

MR. SHAMBAUGH: Bill, one of the things I wanted to get to you on is one of the things your chapter says is that a VAT is in many ways a wealth tax. Or it can be similar to one in some ways. And I don't think that strikes most people as immediately obviously. And so, I wanted to ask you to flush that out. Because I think it's an interesting point and one that sometimes gets lost.

MR. GALE: Sure. Economists are always looking for things that are truly economics but are not obvious to people compared advantages, the idea that people always put out. I would put this out as another one. In that the VAT imposes a tax on existing wealth. And the way to see that this is standard economics. The way to see this is that future consumption could only be paid for with future wages or existing wealth. So, a 10 percent value added tax is a 10 percent tax on future wages, is a 10 percent tax on existing wealth.

Now as a wealth tax or whichever you want to focus on, it has enormously good characteristics. First, it's essentially a lump sum. There are probably some ways to avoid it but you don't have the avoidance that you would have in a direct wealth tax. You don't have to measure or value assets for this wealth tax to go through. It happens automatically. And it's very progressive. It's not a complete wealth tax. It exempts housing for reasons we can talk about.

So, if you look at the distribution of non-housing wealth, that's much more concentrated than the distribution of all wealth. So, the lump sum tax on non-housing wealth, 21 percent is paid by the top one-tenth of 1 percent of the wealth distribution.

In terms of how big this tax actually is, in the paper, I provide an estimate it's about $3.8 trillion in present value. For comparison, that's equal to the 10 year revenue estimate of the Warren wealth tax. The 2-6 wealth tax as estimated by the Warren campaign. Others have estimated it to be less. The point is, there is a very big wealth tax component in the VAT and it's a wealth tax that has the type of features that we like to have in a tax.

MR. SHAMBAUGH: That's great, thank you. Antonio, I'd like to ask you about this point of, you know, how are we (inaudible) transactions, how do we make sure we actually collect the revenue and to what extent. So, you spoke some about the concern of just actually reducing the number of transactions but there's also the game that in some sense Catherine is referencing of moving the transactions out the United States, making the transactions more opaque in a way that would make them harder to tax. So, how did you think about that when you were crafting this proposal to think about some of those challenges?

MR. WEISS: Yeah, those are all fundamental questions. So, we have the benefit of what other countries have done and we also have the benefit, which I'll describe of how the SEC user fee works in the United States. So, the poster child for a bad FTT for those who follow FTTs was Sweden in the 90s. And it basically imposed a 200 basis points, 2 percentage point tax on trades and didn't particularly think about capturing anything international. And what happened, the stock market went down by 5 percent and they eventually came to their senses and revoked the FTT.

On the other hand, Hong Kong which is less often discussed but Hong Kong has a 20 basis point FTT on equities. And it raises a percentage point, 1.2 percent of GDP reliably through the FTT and it remains a pretty vibrant financial center. Now there is some distinguishing features, obviously, between Hong Kong and the United States in this regard.

But in terms of tracking, the U.S. has an FTT to a limited degree and it works in the following way. The SEC is funded by a fractional tax on equity and equity derivatives of whatever amount is necessary to recoup its appropriated budget. So, most recently, that was about .2 basis points. And it collects those from exchanges and from broker dealers.

And so, in the way in which Laura and I constructed this we had a few big questions to answer. One was what's the infrastructure. So, we start with the SEC infrastructure. And so, instead of .2, we start at 2 basis points. What is the scope and this is the territorial question and we avoid the Sweden problem to the extent we can by including offshore trading, trading by foreigners, all the kinds of games which we've observed in other countries. But, of course, we would want to coordinate it. We would want to coordinate it.

And now, BEPS experience where the OECD came together to coordinate was a great experience. But we're also aware that it may not be possible to get all of the OECD countries to like our proposal rather than their proposals that they already have. And so, the design features of sort of tracking through the SEC capturing offshore and international through the definitions that we introduce in the paper.

And then recognizing that the U.S. is 40 percent of global financial markets, hard to disintermediate. And the international coordination arguably would be easier if the U.S. were already headed down this kind of a path. Of course, it's also about the level and the other details of it. And again, I described how we came up with 2 basis points coming up to 10.

MR. SHAMBAUGH: Okay great, thank you. So, I think it's an important point you raised in here is that you're -- especially on equity trades, you're not going from zero or a tax we've never had. It's just going from a very, very low level of .2 up to a higher basis point.

MR. WEISS: Yeah. Under the Obama administration in the last few budgets, someone who will remember better, we suggested, Mark Mazur will remember better. We suggested increasing that fee somewhat in order to provide a greater appropriation for the SEC and capturing the CFTC inside it as well just due to the magnitude of the CFTC's mandate. That never passed but it did leverage the existing infrastructure of the SEC user fee. This is in order of magnitude different. It's an order of magnitude broader in terms of scope but the basis is there to begin collecting its rent.

MR. SHAMBAUGH: Great, thanks. Catherine, I wanted to come back to you on the VAT for one second. Which is, although you can take this in whatever direction you'd like. But I was just thinking that as someone who is on the receiving end of a number of OECD reviews of the U.S. economy when I worked in government.

MS. MANN: My fault, sorry.

MR. SHAMBAUGH: Almost every single one of them as I recall included somewhere in there either a large section or a throwaway line that basically said, and for God sakes, the U.S. should have a VAT.

MS. MANN: Right.

MR. SHAMBAUGH: And I'm just curious what the logic you saw there. I don't know if you personally agree with it, that may have been the house view more than your view. But I was curious how you took that.

MS. MANN: So, having been both on the side of writing the U.S. comments on the U.S. report at one time in my career and then on the other side, being the person who sits on the other side of the table from the U.S. people. Yeah, I mean, the two perennials in any commentary on the U.S. economy are the mortgage interest tax deduction and the value added tax.

So, I think the point being that value added tax as a simple tax to raise revenue is true. But in the context of multinational companies and the value added tax at the corporate level has to be viewed in the context of this international issue. Where large corporations who have multiple transactions that sit with inside a corporate umbrella have an opportunity to use transfer pricing in order to shift profits from one place to another. And that you have to have that view that you need to address that. And that's where BEPS came from because so much revenue was being lost to countries and everybody came to the realization of that.

So, it's not inconsistent to say yes, a value added tax makes sense but you also have to pair that with country by country reporting, automatic exchange of information which is the individual part. Country by country reporting is the corporate part and that you have to get inside the corporate umbrella in order to affect the revenue raising that you thought you were going to get.

There is a huge pushback in the U.S. to get fully inside certain kinds of corporate umbrellas. And we're not talking about the names that you have thought of probably in this room. But there's a lot of smaller entities where the current strategy to deal with the taxes, I don't know what's behind the door. I'm going to put a tax bill under the door and you guys behind the door figure out how you're going to pay for it.

That means the tax authority is not going to go open the door and look at each one of those. And that could be a problem from the standpoint of revenue raising. If I take that one step further towards that financial transactions tax and, you know, I'm just being pragmatic here. First, you don't want to only tax equities, you already have a tax advantaged situation towards debt and debt creates a lot more problems in the environment with regard to stability than equities do because it's a one-sided bet.

And number two, so you want to have everything covered. Equities, bonds, derivatives. And the problem with derivatives is very complex, lot of opportunity for cascading and if you don't cover them then the financial system was very entrepreneurial. And will find a strategy to effectively do what multinationals have done in the context of corporate income tax and VAT. They will find a strategy to completely evade it, avoid it, whichever word you want to use. And replace the transaction that you are taxing with a mirror of one that does not tax.

MR. SHAMBAUGH: Great. We have some terrific questions here, yeah, I think more may be coming my way. So please, if you were writing out a question, pass it on to people and send it my way. So, I think some of these we can go through a little quicker and people should just hop in where they'd like.

The first one, Bill, I did want to ask you real quick just on this idea of, because you mentioned it in passing but just how would international transactions play into the VAT the way you're thinking of it. And the reason I ask is just because we had a very big thing in the tax policy world in the United States two years ago thinking about a destination based cash flow tax and there were border adjustments there. And that, I think, in part helped sink that idea. And so, you mentioned border adjustments, I wonder if you could just take two seconds to flush out how that would work.

MR. GALE: Sure. Every value added tax in the world has border adjustments. That is, it exempts exports from the tax and it taxes imports. And what that does is align the tax base with domestic consumption. If you want it to be a consumption tax you have to exempt exports, exports are consumed somewhere else. You have to tax imports, imports are consumed here.

The U.S. kind of freaked out about it with the cash flow tax, the destination cash flow tax because again, we don't have a VAT, we're not used to that. But even retail sales taxes are border adjusted, right. If we had a national retail sales tax, we made something here and sold in the United Kingdom, it would be exempt. If someone, something was made over there and sold here, it would be taxed.

So, it's a very natural way to organize a tax if you want it to be a consumption tax. It's not retaliatory, it's not an export subsidy, it's just how you create a consumption tax.

MR. SHAMBAUGH: Great, thanks. Okay so, some of these could be quick. Antonio, one question here is how would an FTT effect middle class households? And one thing I think that might be helpful is people understand might I bear any burden of an FTT even if I am not personally trading depending on middle class households? Because you talked about where they would -- different quintiles would bear the burden. How do you think about that?

MR. WEISS: So, an FTT is called by its advocates a Robin Hood tax. There are various reasons why I don't think that that's the case. Equally, an FTT is called by its opponents a tax on retirement which I don't think is the case. I described the incidents in my opening comment. The FTT in the middle income quintile would cost about $170 annually. It's a complicate incidence analysis.

But I think the main points to know is that this would not primarily target anyone in the middle class and that the vast majority of the incidence falls on those who have financial assets, no surprise, who are the wealthy.

MR. SHAMBAUGH: Great. Bill, how would a federally enacted VAT interact with existing state and local sales taxes?

MR. GALE: It would help the states a lot. State sales taxes are a mess. They don’t tax services, they have a hard time taxing internet sales. They raise 40 percent of their revenue from business to business transactions. Where if they're retail sales taxes, that number should be zero.

If the federal government had a VAT, no state would have to conform to a VAT but if they did, they could avoid cascading taxes on business. They could tax services, they could tax internet, mail order sales. So, I think on net it would be a big plus for the states. And just in one calculation in the paper, in order to raise the same amount of revenue as current retail sales taxes do the average state VAT rate would have to be about 7, a little bit under 7 percent. So, it's not a crazy or an outrageous rate.

MR. SHAMBAUGH: Okay great, thank you. This is one that actually I'd be curious what any of you thought. Which is if you were thinking of doing either or both of these taxes why would you want a separate FTT and a VAT or would you just make financial transactions in some sense subject to a VAT. How would you think about them interacting?

MS. MANN: Well, a proposal that sits in the middle of these literally is a financial activity tax. And so, you tax the value added that's being generated once you net out the two sides of the transactions. This is where derivatives kind of become really challenging. Because, you know, the value is only generated at the point when something is exercised. So, that's not the same as a transaction. Like maybe you want to do that.

MR. WEISS: I mean, I would just simply say, I mean, creating an FTT of this scope and magnitude in the United States is sufficiently complex. That I would not advocate going the additional step of having to do it on the profit that's generated on each level of transaction.

Just quickly on the derivatives point, yeah, the derivatives part of this complicated. We have some assumptions in our paper that deal with derivatives. But the line share of the revenue, it does come from equities. You have to include derivatives and that proportion may grow as it did in the UK where they invented contracts for difference to deal with the stamp duty. But the majority comes from equities then some comes from bonds and then just a bit from derivatives.

MR. GALE: I just want to add, the FTT is a tax on the gross transaction size. The value added tax is a tax on the net value added in the transaction. And so, there's a lot of issues with gross versus net taxes that are worth discussing. But the financial sector is traditionally hard for VATs to tax because it's hard to measure value added in financial transactions because of implicit fees and stuff like that.

There are new ways that are coming about. South Africa and Australia are leaders in taxing the financial sector in a VAT. But it's the hardest sector for VAT to tax.

MR. SHAMBAUGH: Great. Bill, one question in here, I think, is a very good follow up. It just says, in your comments, you mentioned that you would want to adjust things like Social Security or means tested programs. Adjust in what way? So, I think just for clarity.

MR. GALE: Okay. So, that's a great question. A VAT drives a wedge between wages and prices that's not there in the income tax. And so, what I say in the papers, the Federal Reserve should accommodate that adjustment and let the price level rise by the full extent of the VAT. So, a 10 percent VAT, let the consumer price level rise by 10 percent.

That then cuts into federal means tested benefits in a way that is not an intended effect of the VAT. So, I would adjust those means tested benefits up. In the same way it undercuts Social Security benefits because of the way, you know, real wages are calculated. So, I would make an adjustment in both cases to restore the value.

If the Fed did not accommodate and the price level stayed the same, you would not have to do that. But then the adjustment would have to come through lower wages which we know macroeconomically is a bad idea.

MR. SHAMBAUGH: Great. So, we only have a few minutes left and so that's a good thing because this is a question that could take the next four hours. So, it will prevent that from happening. So, one of the questions and I think all three of you may have a view but is do you think the financial sector has gotten too big? And so, do you view the FTT as a way to counteract that or as a revenue raiser or some combination?

MR. WEISS: Well, I mean, I think that it is arguable that the economy did not need an eight fold increase in equity trading in order to properly allocate capital. So, I think, and that's the narrow question which I'm trying to answer with the FTT.

So, the reason we assert that it has a Pigouvian element is that we think it would not be such a bad thing if that eight times were reduced. We think there would still be efficient price discovery that markets would function in an orderly fashion. And yes, I mean, arguably it's not a case we make particularly strongly. But it's arguably the case that the resources that are invested in capturing the latest data in order to trade whether that be infrastructure investments or human capital resources would be better used elsewhere in the economy.

Again, it's not -- you asked about Pigouvian versus revenue raiser. We think it's works as a revenue raiser as a progressive revenue raiser and that's it's feasible. The Pigouvian elements, we don’t think we need to win that part of the argument. But, you know, our bias is that they exist in the tax.

MR. SHAMBAUGH: Catherine or Bill, anything to add?

MS. MANN: So, there are a lot of factors that are affecting the size of the financial sector. The transmission mechanism of these two, the real economy, one could argue that a balance of say, for example, the recent tax benefit that corporations got. If we look at where did it go, only about a third went actually into real investment. The rest of it went into other things, buybacks, M&A and so forth. Was that because of high frequency trading or because of other factors that are reducing the incentives of corporations to invest in real economic activity that would be supportive of productivity growth. That would be supportive of economic growth more generally.

At the margin, the FTT that you have in mind is probably not going to be enough to change the incentives facing companies to do what they're doing now with their revenues wherever they get it from. Relative to other things that need to be put into place more generally to make investing in real economic activity innovation, worker training et cetera, that is needed in order to support productivity growth and more equitable growth in the U.S. economy and the global economy.

MR. GALE: If you read Michael Lewis' book Flash Boys, you will come to the conclusion that a great amount of intellect and resources are being wasted on these high frequency trading. And that there is a good case to curtail it either by regulation or tax.

MR. SHAMBAUGH: Okay that's a very concise way to end things and I'm getting the time is up sign. So, with that I'd like to thank the panel. We have one more short panel before we do take a break. So, I'd ask you to stay in your seats as well. We'll have one final panel, it's a short one and then we'll take a break.

MS. DAVIDSON: All right. Hi, everybody. As Jay promised, this is going to be a short one, so I'll try to dispense with any introduction. Larry went over a lot of the great details about enforcement and compliance and sort of the sad state of affairs at the IRS. But we're hoping that Natasha can kind of delve into some of more that and their paper, talk about why compliance is progressive, and all that.

Natasha Sarin is an assistant professor of law at the University of Pennsylvania Carey Law School. And her paper with Larry Summers is included in this new book. It proposes a broadened tax based and strengthening tax enforcement and compliance.

So I think a good way to start would be just to ask you to kind of walk us through, you know, what's a good way to ballpark how much money there really is at the top? And what's the right way to raise that? Because I know you don't just talk about compliance. Obviously, you have a menu, as you called it. So maybe starting with that.

MS. SARIN: Absolutely. So, first of all, thank you for doing this and thanks to Jay and Hamilton for including our paper in the volume.

This is like sort of a first order question, like how much revenue can you realistically expect to raise from the very top? And Larry got at it, sort of set me up very nicely in the first panel. It feels like a very first order question, and so it's how we start this chapter.

And what we tried to say is we take what the IRS Statistics of Income Report in 2017, the last time we had this information, what's the total income that those in the top 1 percent have? Total pretax income is $2.3 trillion; 800 billion of those dollars are collected as taxes. And so what do you have left? You have 1.5 trillion. How much of that 1.5 trillion do we think we can get with a bevy of -- a series of tax proposals that we make?

What we say is that we look at Auten and Splinter, who are economists at the JCT, have provided some really interesting data on sort of effective tax rates over time by different centiles of the income distribution. And in the debates that have been going on that sort of Larry and I have been writing on in the last year, there's a lot of discussion of old times when tax rates were 70 percent top tax rates or 90 percent top tax rates. In reality, no one was paying 70 percent top tax rates, no one was paying 90 percent top tax rates. Since 1960, the highest effective tax rate in the U.S. on the top 1 percent has been 47 percent, 47.5 percent.

So where we start is we say let's say that rather than the effective tax rate we have today, we instead increase the effective tax rate on the top 1 percent up to this historical peak. And what you can get there, depending on whether you want to raise it on just the top 1 percent or whether you want to raise taxes on only millionaires, you can make a series of different assumptions, you have between around 3- to $4 trillion on the individual income side.

Importantly, and like a bunch of proposals in our chapter or a bunch of proposals in our chapter are around corporate taxation. Importantly, that exercise that I've just done for you is on the individual side. And so what do we think about the corporate side? Obviously, very rich people and corporations, we can have debates on what the corporate tax incidents assumptions we should use on the very wealthy really are. What we say is that let's assume just for a starting point that we can increase the corporate tax rate and that that's all on very, very rich people back to 35 percent.

Again, that's not what we're saying we should do. We're just trying to get a ballpark estimate of how much money is out there conceivably. That gets us around another $1-1/2-ish trillion over a decade. So kind of the total number that we get to from the very rich is around 4-, maybe $4.5 trillion in 10 years.

And so two things important to know about that number. One is that it is much, much lower than what many Democratic presidential campaigns are suggesting can conceivably be raised from the top. And we think, you know, everyone's entitled to their view, but in our view those estimates are sort of misguided.

But that said, 4-, $4-1/2 trillion is a lot of money that can be collected from the very top. And so what we hope to do in this chapter is lay out a bunch of suggestions that we have in different arenas that we think is going to be able to accomplish quite a lot of revenue generation in ways that are deeply progressive.

And also the chapter’s called “Pragmatic Progressivism in Tax Policy.”

MS. DAVIDSON: So let’s talk more about that. You know, why should we think about ramping up compliance, for starters, as a progressive tax reform?

MS. SARIN: So maybe I’ll outline a little bit our compliance proposal and then tell you why I think it’s progressive.

MS. DAVIDSON: Sure, that’s great.

MS. SARIN: Our compliance proposal has three big components. And where our belief that there needs to be much more aggressive investment in the IRS comes from is the fact that the IRS’s budget in real terms has declined by 15 percent in the last decade. The IRS’s enforcement budget, the resources it has to do audits and examinations and the like, has declined by 25 percent in the last decade. The IRS currently has fewer auditors than it has had at any time since World War II. And so these are just -- there is a need for much more active policing and there is a need for much more budgetary investment in the IRS as an institution.

And so our proposal has three prongs. The first prong is a greater focus on examinations and much more aggressive auditing. Larry gave you some of the headline statistics, which are just remarkable, so large corporate audits have gone down by 50 percent in the last decade. It used to be that every big corporation, big corporation more than $20 million in assets, was audited. Now it's less than half. Audit rates for millionaires have gone down from 12.5 percent to 3.2 percent. They've gone down by 75 percent. You are now equally likely to be audited if you were on the EITC as if you are in the top 1 percent. So there are clearly just sort of both a lack of resources and a questionable set of priorities in terms of how we are allocating the limited resources at our disposal.

And so what we say in the chapter is we say as a starting point let's take ourselves back across filing categories to audit rates that existed a decade ago. But let's do so in a really progressive way. And what we mean by that is rather than increasing audit rates for people who make less than $200,000 a year, we're going to leave those roughly untouched. And instead what we're going to do is we're going to say that if you're a millionaire or a multi-multimillionaire, audit rates on you are going to be at least 20 percent. And we think that that's likely to have both direct revenue-generating potential, so what you've seen is that as audit rates on millionaires have declined by 75 percent, the revenue that the IRS collects from those audits on millionaires has gone down basically one-for-one. So there is direct revenue potential from increasing audit rates back to their -- even increasing them beyond their historical levels.

But there are also substantial and important indirect effects, not just on the people, the millionaires, who are going to be audited, but also on those individuals who are going to see other millionaires be audited and then adjust their tax behavior accordingly. And so just this prong, this first prong, that's focused on examinations has the potential, we think, to generate around $700 billion in revenue in a decade. So it's incredibly sizable and incredibly progressive.

The other two prongs of our proposal, the first is around information reporting. So the vast majority of regular, sort of ordinary income earners earn wage and salary income, that’s how they get paid. That income is automatically -- the taxes that they owe on that income is automatically withheld. It’s also subject to cross-party reporting by their employer.

Really wealthy people accrue income in more opaque categories, things like capital gains income, things like dividend income, things like proprietorship income, rental and royalty income. Compliance rates for regular wage and salary workers are 99 percent because that’s automatically withheld, so they’re kind of obviously compliant. Compliance rates for individuals whose income comes mostly from these opaque categories range from 83 percent to 45 percent if all of their income is from proprietorship income.

And so all it is to say that we think that there are ways in which -- and this is not just us, by the way. The GAO agrees with us, the National Taxpayer Advocate agrees with us, the IRS agrees with us that greater information reporting requirements have the potential to generate significant amounts of revenue and, again, will do so in a progressive way because those that are under-complying are making their income in opaque categories that don’t currently have reporting requirements.

The third prong of our agenda is around technology and around greater investment in the IRS’s technological capacity. It’s really interesting that the basic software that the IRS uses has not been updated since 1960. They’re the oldest -- that’s the oldest technology that exists in the government is the IRS. And you might think that, you know, maybe it doesn’t matter that much. Maybe you think that. I don’t think that, but maybe you might think that.

When the IRS first introduced sort of the potential for electronic filing, it was like 1986, and then it was a pilot program. Basically, no one was filing electronically. We were just going to test and see how this worked. Last year, 90 percent of filings were done electronically. And so the idea that you don’t need more technological capacity in order to deal with the new reality that everything is happening on these softwares is kind of crazy.

It’s also quite striking that if you compare the IRS's expenditures on this dimension to Bank of America, which services a lot of people in the U.S., a quarter of the country, but the IRS services everyone, Bank of America spends four times as much on technological investment, despite having -- not relying on technological machinery from 1960. And so all that is to say that we think there is -- and we know this, by the way, even for the information reporting that currently exists, it's already performed, the IRS lacks the capacity to match information reports to individual filings. The IRS can only actually go after around 20 percent of the discrepancies that it identifies because it lacks the capacity to do more. And so we think that here, also, there is a lot of scope for good work.

And if you put these three sort of prongs of our approach together, we think that just from compliance alone there is around a trillion dollars of revenue to be generated in a decade. This sort of investment has the added benefit of making the Tax Code more efficient and more equitable and much more progressive because the vast majority of people in this country are paying the taxes that they owe. And the people who aren't are disproportionately wealthy or higher income individuals who are taking advantage of opportunities not to do so.

MS. DAVIDSON: I'm curious, I think that Larry mentioned that a number of these ideas could be done through executive actions. Explain that. And maybe for the parts that can't, I mean, how politically feasible do you think this whole idea is?

MS. SARIN: We were talking about this earlier, also. And so, you know, I will say that we are not -- we are, economists, sort of writing about ideas that we think are important and we're not pretending to have any special expertise in political science or in the political process. But I will say a couple of things about why I think that these approaches that we outline in the chapter make a lot of sense as a starting point.

So the first is that from the perspective of political feasibility, we are -- everything that's in this chapter, not just around compliance, everything that's in this chapter Larry talked a little bit about elimination of stepped up bases is in our chapter.

There are also just in general loophole closures, carried interest in this chapter. So we're like sort of a lot of ideas that have been part of the progressive tax discussion for a long time, we are kind of advocating a whole swath of them.

You might think that, and some people do think, like a knock on this approach is that, number one, it is -- you're proposing 25 things rather than it's not like we're proposing a wealth tax or a marked to market taxation. It's a menu of options, we like to call it.

You might also think that the fact that we fit into the traditional progressive tax agenda is to our discredit. We actually, it's our view -- and again brighter political minds than I will debate this, I'm sure, and are debating this -- we're of the view that the fact that we are within the traditional landscape is actually a benefit and a feature of our set of proposals, not necessarily a bug, precisely because it is very clear how you implement the changes that we are suggesting. They it fully within the realm of what -- the infrastructure that already exists.

What we are suggesting for noncompliance is you give the IRS more resources and you suggest to them how to better use these resources. And it's really no surprise to us that what we've seen since we sort of started talking about this in the fall is that there are congressmen and there are senators who are incredibly enthusiastic about this idea, precisely because it is, you know, good policy, is going to generate a lot of revenue, and is implementable in a way that some of the other approaches that we are going to talk about today, that I'm excited to be talking about today, aren't as obviously so.

And so I think that it's an exciting time to be thinking about tax policy because a lot of what the discussion that we're having today is around radical changes that have really expanded the Overton window on what we even think about in this space. And I actually think that gives us a good deal of space to be proposing pragmatic, progressive, traditional approaches that can find themselves a broad base of support precisely because they have been discussed and debated and their merits have been extolled for a great deal of time.

MS. DAVIDSON: I want to ask you, I was going to ask you about the kinds of feedback that you've gotten because, as you mentioned, you had a paper in November that tackled a bunch of this, particularly the compliance elements. What sort of feedback have you gotten? You mentioned lawmakers. What about folks either current or former Treasury and IRS people? What do they say about this?

MS. SARIN: So one thing that we should be clear about and I hope the chapter does a good job of being clear about, and our earlier paper did, as well, but I'll say it again now, is we offer a bunch of revenue estimates and I feel pretty confident that we did the best of our ability on the revenue estimation that we've done. But a lot of this is inherently uncertain. Right? It's really hard to know how much more it costs to do an audit of someone with $10 million than someone with $500,000 in income.

And we tried to do a bunch of assuming and we came up with some numbers and some ranges. But a really important and a piece that you mentioned, like what do people at the IRS have to say, a really important exercise for the set of proposals that we've laid out, particularly around compliance, will be having professional scorekeepers weigh in on the likely revenue benefits that can be generated from these set of approaches.

And, by the way, and considering something that we didn't spend as much time in the chapter really doing, which is the fact that in order to audit millionaires at 20 percent rates, you need to train people who have the capacity to do these very complicated audits that the IRS's workforce currently doesn't have enough people to be able to do that. And they're not even being able to audit millionaires at the rates they want to currently because they don't have the workforce that is capable of those very complicated set of examinations. And so we need to be clear, and professional scorekeeping will help do this, about the fact that there is going to be a ramp-up period here before we're able to realize the full revenue benefits of the approaches that we advocate.

Another sort of side note, you didn't really ask about it, but a side note around compliance and around scorekeeping is many people, and many people who have actually experienced trying to legislate versions of IRS budgetary increases in the past, point out the fact that the scorekeeping rules make it very difficult to account for the likely revenue benefits of some of these approaches, precisely because when you score an increase in the IRS budget, you're not actually allowed to account for the fact directly that there will be revenue gains for much more aggressively compliance efforts. And the reason for that is because it used to be the stop gap thing, everyone would just throw in compliance at the end to try and get the budgetary effects that they wanted of their various legislative proposals.

But the reality -- and not to knock scorekeepers who do try to provide sort of expected revenue benefits in indirect measures rather than accounting for the gains directly, which they're just not allowed to. And Larry wrote this in our *Washington Post* column, what's counted really does count. And the fact that the scorekeeping rules don't allow for the revenue gains from compliance to be considered in evaluations of these proposals does discourage investment on these dimensions because it doesn't count in some sense. And so we think that there is -- this is sort of tangential to our set of proposals, which we think are a good policy, but we also think it's important to be realistic about the political constraints and the fact that maybe we should revisit some of these rules.

MS. DAVIDSON: Yeah, that's an interesting point. You mentioned the ramp-up period. I mean, this would be, obviously, a multiyear effort. How do you keep up momentum for something like that?

MS. SARIN: Yeah. I mean, you're now pushing me to get outside of my core competency, but I'll do what I can.

MS. DAVIDSON: Thank you.

MS. SARIN: I think you are right that it will be incredibly important. All the measures that we propose in this chapter we think are good policy that will make the Tax Code more efficient and equitable and, as Larry said, would be desirable to do, even if their revenue potential was zero. And so that's like our strong belief and, you know, you can read the chapter and let me know if you agree, but that's what we think.

And so partially the -- it's true that it'll take years in many cases for the revenue benefits to fully reveal themselves. Some of them are uncertain, like, you know, what's the -- is there a decreasing marginal utility of greater investment in IRS compliance? Like who knows exactly what that is? It's all very complicated.

But you're right that a big hurdle sort of on the political dimension will be making sure that there is tremendous enthusiasm for the measures that we're proposing, especially since it's not going to be obvious immediately how successful they are likely to be in the long term. That's true.

I will say, though, that one sort of bright spot that we like to think about as we're thinking about the potential on many of these dimensions, we talk about increased efforts around technology in the chapter. And the IRS is trying to do more of this. They've initiated this pilot program. It's called the RRP, the Refund Return Program, where they try to use more sophisticated data technologies around machine learning to make sure that they don't issue invalid or overly generous refunds. And that was a pilot program that was initiated by the IRS three years go. Last year, the IRS spent $90 million on that program and generated $4.4 billion in additional revenue. And so that's like a 50-to-1 return and it's something that happened very quickly.

And you might not have known about that because maybe we should do much better about understanding and harnessing the potential of many of the approaches that we advocate for in this chapter and, also, finding ways to make them salient and well understood and help the IRS get to a place where its accomplishments are sort of celebrated and revered rather than what's happened in the last decade, which is a little bit of a gutting of the IRS both through lack of resources, but also through sort of coordinated political attacks.

MS. DAVIDSON: Mm-hmm. Really quickly, we're almost out of time, but just to push you really far outside of your comfort zone, who do you think is the right person, the right kind of IRS Commissioner to lead this effort?

MS. SARIN: Oh, that's like a really hard but good question. I think that what we -- what I've observed, both in the IRS, outside of the IRS, is that there is a lot of potential for individuals who are smart and motivated and enthused about action to make a lot of change in some of the dimensions that we've laid out in this chapter.

Let's assume that the IRS budget was unchanged. We didn't do any of the things that we suggest we do, the increase in budget, returning it to historical peak, all of that. Even then, an aggressive tilt towards auditing more individuals who are higher income and acknowledgement and a repetition of the fact that if you're on the EITC, your audit rates shouldn't be as high as if you're in the top 1 percent. Just being cognizant of the capacity to action and enthusiasm on a bunch of these dimensions, even without sort of the drastic changes that we suggest we need, can accomplish quite a lot. And so if I was looking for sort of my dream IRS Commissioner it would be someone who we could persuade that these are progressive, good policies to be implemented and there are ways to do so even without some of the legislative changes that we'd also like to see.

MS. DAVIDSON: Great. I thought that was a good answer. (Laughter)

MS. SARIN: Do what I can.

MS. DAVIDSON: Great. Thank you so much, Natasha. I think we're just about out of time. Thank you, everyone, for being here today. And thank you for answering those questions.

MS. SARIN: Thank you. (Applause)

(Recess)

MS. RAMPELL: Thanks, everyone, for joining us for our panel on taxing wealth. I'm Catherine Rampell and I'm an op ed columnist at the Washington Post. And so, yes, we're here to talk about how to tax rich people, to oversimplify a bit.

There is a sense in which I'm a bit of an ironic choice to moderate this panel, in that I am descended from a long line of accountants, including my father whose practice -- he's still working, his practice includes helping rich people minimize their taxes, legally, of course, tax avoidance, not tax evasion.

And he has referred to himself in the past, somewhat self-effacingly, as a regulatory parasite. I got his permission to use that term, by the way. In the sense that the more complicated the tax code is, the more business there is for CPAs and tax attorneys out there, but not necessarily, more going into the U.S. Treasury's coffers.

So one of our challenges, I think, today in talking about how to tax wealth is how do you design a system if, in fact, you are trying to raise more revenue from wealth so that revenue goes to Uncle Sam and not to Papa Rampell. So I think that's one of the objectives we'll be talking about today.

But more broadly, you know, why tax wealth in the first place? Why not do as we're doing through the income tax system, beef it up, raise rates, etcetera? Why think about wealth as opposed to income if we're trying to raise more revenue from higher income percentile or wealth percentile American households?

And what are the least distortionary, most efficient ways to do that, both in terms of what's going to have the least consequences for economic activity, as well as easiest to administer, going back to my comment before about regulatory parasites?

And, you know, beyond revenue raising, is there an end in itself in reducing the wealth of the very richest household in America? Is this basically a means to an end? Is some sort of wealth tax a means to an end, or an end, in and of itself?

So to kick off our discussion, let me introduce our esteemed set of panelists. So Greg Leiserson is on the far end here. I won't say left or right for political reasons, amongst others. And he's the director of tax policy and the chief economist at the Washington Center for Equitable Growth. Previously he had worked at the Council of Economic Advisors, as well as at Treasury at the Office of Tax Analysis.

David Kamin who is a professor at NYU Law, and had also worked in the Obama Administration advising on tax, budget, economic issues in the White House, I believe, as well as at OMB working on budgets.

Ray Madoff who is a professor, a law professor at Boston College who focused, amongst other things, on estate taxes and other forms of taxes on wealth, as well as the tax sphere surrounding philanthropy and other issues that I hope we'll have a chance to get to.

And Michael Strain, closest to me. He is the director of economic policy studies at ADI and previously had worked at Census and the New York Fed. So thank you to our panelists.

David, I'm wondering if we can start with you? Could you just make the case for why we should be talking about taxing wealth, taxing savings, if you would? Why do we need a new structure, if we need a new structure? And how effectively do we tax income and wealth under the current system?

MR. KAMIN: Sure. So thanks for the question and for a great event today. So we do tax wealth right now through the federal system. We tax it poorly. At the individual level, we have a federal income tax which applies to returns to capital. It's just a lot of income off that capital is escaping and the current base is ineffective at generating significant additional revenue from the top. Why?

Well, as all law professors like to focus on, the realization rule. It has long been bemoaned by law professors as one of the great weaknesses of the income tax system, we allow those who hold property to chose when they want to pay tax by saying that they only have to pay tax at the point of realization, and further, if they hold until death, and this was discussed on the previous panels, they get to wipe out any tax liability through STEPMA (phonetic).

That combination allows easy escape of the current taxation of wealth. What evidence do we have of this? And people have given some of this, so I'm just going to give one illustration of how ineffective we are.

So as of 2018, an estimate is that there are about $800 or $900 billion per year in long term capital gain realizations. To be clear, the actual income of the top in terms of their capital income is likely above that, but it's what was realized. Around 70 percent of that was for the top 1 percent, a little under $600 billion in that year. So if you just imposed a, say, 20 percentage point tax on that $600 billion taking, effectively, the tax rate up to ordinary rates and nothing changed, they couldn't escape it all. What would you get? You'd get roughly $120 billion per year in revenue.

So when the official estimators are asked how much do you get if you increased capital gains rates to ordinary rates the answer is very little, nothing like that, and, in fact, once you exceed something in the rate of 30 percent, maybe a bit north of that you, in fact, begin losing money. Our base is that porous, people escape. Papa Rampell is able to help his clients fully escape that increase in tax rate.

So we have lots of evidence of failure. We have ways of potentially fixing that failure, at least certainly improving our based. And before I go into what I think will be motivating this discussion, you know, how we fix that base, I just want to note that fixing that base, making it less porous by making sure that people cannot so easily escape tax liability is a complement to higher taxation. Right. I can be a complement to higher rates. Because if you have a base this porous you don't get much for increasing rates because not much to be had, a lot of tax planning.

If we manage to improve the base that can, in fact, justify a higher rate that can be used to generate significant revenue for all types of purposes. And whatever your purposes are for increasing wealth taxes it is likely to be improved by a better base.

Now, in terms of how much we have to fix that base, I mean that's going to be the big discussion here. I just want to note, you know, there are, obviously, steps you can take towards the more significant reforms that are going to be in our discussion here, wealth taxes and mark to market. On some of the prior panels, there was discussion of carryover basis and step-up and realization of debt. Those would be intermediate reforms.

I just want to, like, quickly illustrate why we might want to talk about some of the more fundamental reforms. So when you ask CBO how much do you get from going to carryover basis which was Bob's, I think, preferred reform. They estimate about 10 billion a year. And it's not clear that actually changes what's called the elasticity of capital gains. You're not clear you'd get a lot more from raising rates, so call it 10 to 20 billion a year, maybe, from those estimates.

Helpfully, Larry and Natasha provided an estimate of realization of death and increasing ordinary rates and they put it at about 60 billion a year. Greg estimates, he has estimated about $300 billion a year from the reform he designed for wealth taxes or, alternatively, mark to market ordinary rates.

We should have a significant discussion whether those magnitudes are right and whether there is that big gap. But if there is that kind of gap between what's possible with fundamental form versus more incremental reforms, it strikes me that the discussion worth having and worth discussion what it takes to get the kind of fundamental reform to reduce gaming and generate the kind of revenue that Greg has laid out in his paper.

MS. RAMPELL: So, Greg, this is a lovely transition. Thank you, David. You have a chapter in this book that, hopefully, the audience has a copy of, proposing your own version of how we can more effectively or efficiently tax wealth. Can you walk us through what that is?

MR. LEISERSON: Sure. And, first, thank you for moderating this panel, and thank you to the Hamilton Project for organizing this book and inviting me to contribute.

I propose in this chapter a fundamental reform to the taxation of wealth and investment income. And the motivation for that is the fact that they existing income tax does a very poor job of taxing the income from wealth, exactly as David just described that the reliance on realization allows people to easily avoid tax.

And to be slightly more concrete about what it is about realization, it's not just that you pay tax when you sell assets or when gains are realized, you can defer the tax without any cost. You don't pay interest if you choose to sell 15 years from now rather than 5 years from now, there's no interest on the loan that you got. So you have these very strong incentives to hold onto those assets for the extended period of time.

And so the essence of my proposal is to reduce or eliminate the benefits of deferral that exist under current law. Now, I outline four different approaches to this type of reform in the chapter that reflect, sort of, the range of options that are being actively debated at the moment. And the reason I outlined these four different approaches is both because I think, quite frankly, we don't know which one of them has the, you know, best combination of advantages and disadvantages.

And so I'm hoping to both flesh out some of the details of the proposal, and also evaluate them in a sort of internally consistent economic framework to help us better understand some of the considerations that you might think about when choosing between them.

So with that sort of preamble let me walk through the four approaches to taxing wealth and investment income that I include in the chapter. And these four approaches differ. There are two dimensions on which they differ and there are two options along each dimension.

So the first is do you tax wealth or do you tax the income from wealth, right? And David already floated this idea that the existing income tax is a tax on wealth because it is a tax on the income from wealth, right. So I propose a wealth tax. This is a 2 percent wealth tax on wealth in excess of $25 million for married couples, and half of that for singles.

And then I proposed an accrual income tax. An accrual income tax is a tax where you include in income each year the change in the value of all of your assets and liabilities, regardless of whether you sell them or not. So I proposed an accrual income tax that applies ordinary income tax rates to families with assets in excess of $16.5 million. And, again, half of that for singles.

Now, we've heard a little bit already here and earlier today about valuation. Both of these options require you to value assets every year. Different assets are sort of easier and harder to value, so I propose another set of approaches that requires annual evaluations only for, sort of, relatively easier to value assets, thinks stocks or bonds, that we'll put under the heading of publicly traded assets. And then requires valuation of all other assets, think (inaudible) a private business. Only when those assets are sold or change hands, right. And so you have a split between one system that applies to publicly traded assets, one system that applies to non-traded assets, right?

For both of those, I have a wealth tax version and an accrual tax version, and I apply the same rates and thresholds for the realization-based wealth tax and the realization-based accrual tax that I do for the classic wealth tax and the (inaudible) tax, right. And that sort of gives you these four options, right. Two dimensions whether you have valuation or not every year and whether you take wealth or the income from them.

All four of these approaches share many common features, most fundamentally, they strengthen the tax based, in sort, of exactly the way that David was gesturing at a moment ago. And they also -- the burden of all of these options lies on the wealthy or extremely wealth households. So, essentially, all of the burden of the wealth tax option applies to the top 1 percent of households, 98 percent of the burden of the accrual tax option applies to the top 1 percent of households, right.

And I've calibrated both of these options, the wealth tax and the accrual tax to be roughly $3 trillion over the next decade. Again, just sort of facility a comparison between the options and help us understand how they relate to each other. And so the rest of the chapter goes into much greater detail on the substance of those proposals. The considerations, as you might choose between them, and I suspect we'll get into some of that as the conversation goes forward.

MS. RAMPELL: Ray, I know that you have a slightly different take on many of these issues, including getting rid of the estate tax, is that right? And transitioning to an inheritance tax entirely. What's the reasoning behind that? What would be the advantages?

MS. MADOFF: So as somebody who has taught gift tax and estate planning and has shared that my husband said to me, you are an affirmative debt to society, teaching more people how to avoid taxes.

I have to say the more time one spends with the estate tax the more trouble I have with it. And the reason is because -- there's really two reasons. One is that after many, many years of defending it I have to finally say, I give up, and the anti-estate tax people have won the public sentiment.

And I think if we out in the street and you stop somebody, you ask them about, like, you know, what's in the Bill of Rights, you know, maybe 20 percent of the people know, maybe 10 percent. We're in Washington, so maybe 20. But you stop somebody and you ask them, what do you think about the estate tax? They'll say it's a double tax that hurts family, farms, and businesses, and goes after dead people. It's a death tax.

And the right, the proponents of the anti-estate tax movement has just been phenomenally successful. And this struck home with me when I was talking with a reporter from a -- it might have even been a reporter from your paper who said -- and we were talking about the estate tax and he said, but, yes, but it's a double tax, you know, basically those three things. So, obviously, it's very unpopular.

So none of those things are true, or at least two of the three aren't true. Yes, it is technically imposed on dead people, but we know that the effect of it is actually on living people. It's not a double tax, and it doesn't hurt family, farms, and businesses. But none of that matters because the public believes that it's true, and so the tax, I think, has lost a lot of legitimacy. I think part of it also is there's a certain complexity associated with why are we taking the dead person? It doesn't feel intuitive.

I think the other problem with it is because of this widespread lack of enthusiasm Congress has been let off the hook about closing the loopholes, and it is just absolutely riddled with loopholes. And so that I have students that come into my class in the beginning of the year and they're all excited and whatever, and by the time they're through with the class and they've learned about, you know, grits and grots and crats and crofts and all of those things they feel like they're ready to take a shower.

It is so unfair. It is so easy to avoid huge amounts of the taxes. The stories of, you know, I think Shelby Nambleson [phonetic] there as a story about once, saved $8 billion in estate taxes by using a charitable remainder trust. I mean, and then there's just lots and lots of stories about this.

And so I've sort of given up defending it because I feel like the thing that I'm defending is no longer even worth defending because it has so many problems with it. I think that the estate tax, taxing it as income has a lot of advantages that the estate tax -- that we could leave behind with the estate tax.

First of all, is that an income tax we can focus on the recipient of the tax, and I think that feels very natural to people that when somebody is given or inherits $10 million maybe they can share some of that with the government, particularly because under our current system, somebody inherits $10 million they pay nothing to the government, don't even have to report it, but somebody who earns $50,000 has to pay a share to that to the government. So that seems extremely unfair and unintuitive, but I think that taxing somebody who's been given a lot of money that seems -- I think it would feel fair to people.

I think it's also more -- it has the income tax system operate more the way that it operates. The income tax system is very broad. Anyone who's studied income tax in law school there is, you know, the income tax is imposed on all income from whatever source derived, except -- and in many cases, very broad, right barter income counts for purposes of the income. But inheritances and gifts we just take that out of the system. That doesn't fit with that.

I think most Americans don't even know that inheritances aren't subject to income tax, and if we were to say you get to inherit $1 million tax free, but after that, you're going to pay taxes just like everyone else I think that would feel like a pretty fair system to people. So I like the idea of that, the intuitive appeal.

The other thing that I want to just touch based on, is that by bringing in an income tax system we could address several of the problems that exist in the current estate tax system. So the first thing is that I would provide in my income tax system an unlimited exemption for family farms and businesses that fit within the current Section 2032 which basically says if you really have a family farming business that's a big part of your assets and you're passing it on to people that are going to work on it, no estate tax.

I think that it doesn't affect a lot of people, but it has a big personal attachment to people. So I think it's really important that we provide an exception. It wouldn't cost very much, but I think it would promote good feelings about it.

I think we can also fix the annual exclusion problem. Right now the annual exclusion is used a lot in ways to facilitate tax avoidance, and I think you can limit it to cash and limit it to tangible property and it would make it much fairer.

And, finally, it would address the big problem that we have right now in terms of wealth inequality which are dynasty trusts. Every rich person in the country is setting aside their $22 million in a dynast trust to be tax free and creditor free for all generations to come, and if we had an income tax we would be able to capture that income because distributions from that could be subject to an income tax.

MS. RAMPELL: Michael --

MR. KAMIN: Like kind of a scam.

MS. MADOFF: What's that?

MR. KAMIN: That dynasty thing.

MS. MADOFF: There you go. One of many points of agreement between the two of us, I'm sure.

MR. KAMIN: Didn't know about that.

MS. RAMPELL: So we've established a point of agreement, let's talk about some possible material for disagreement. So, Michael, I know that you have raised concerns about wealth taxes, at least those as conceived by Elizabeth Warren and Bernie Sanders and others who are similarly aligned.

Concerns that are, sort of, more grounded in moral objections, I would say, correct me if I'm wrong, to how they are constructed as opposed to efficiency, or maybe it's both. Could you walk us through what those concerns are and do they apply to taxing wealth or savings in any form or just those particular formulations of tax law?

MR. STRAIN: There are so many things to object to in Senator Warren and Senator Sanders' plan that I decided to esoteric and talk a little bit about some of thee more philosophical objections I have to this. You know, I think you have to answer the question, to what question is a wealth tax on people who have more than $50 million of assets the answer? And, helpfully, some of the most prominent advocates of those wealth taxes have answered that question. And the answers are things like oligarchic drift, the concern that the wealthy in America are so powerful that they're taking our democracy from the person.

Another concern is with the aesthetics of great wealth that people, you know, have these fancy cars and yachts and private jets and who really needs that? Senator Sanders even went so far as to question the number of different types of underarm deodorant you can get at a grocery store or a drug store. To the --

MS. RAMPELL: Presumably those are available not just to billionaires.

MR. STRAIN: No, but they can buy many more of them because of their billions, you know, why do we need all this in society? There's something wrong with the system.

And the objection is clearly to knock the wealth down a peg, to shrink the wealth distribution in order to achieve, you know, these kinds of very ill-formed and poorly articulated political goals, and just to make society look a little more like we want it to look.

I find that deeply objectionable and an abuse of the tax code. The primary purpose of the tax code is to raise revenue. The primary purpose of the tax code is not to regulate political influence. The primary purpose of the tax code is not to shape society, to make it look the way that we want it to look.

The wealth taxes that have been suggested by these candidates would cut in half the fortunes of many of the wealthiest people in America over a relatively short period of time. If the wealth taxes had been in effect since the 1980s Jeff Bezos fortune, for example, would be half of what it is today. That is an extreme and draconian policy. Maybe not extreme or draconian enough, but to my eyes, that's an extreme and draconian policy that requires a pretty significant justification. I have not seen a justification yet that points to a problem serious enough to use government power in that way.

You're talking about 0.06 percent of households and going after 0.06 percent of households in this way, for this purpose, seems to me to be an abuse of government power. There's a second more philosophical objection I have to it which is that it continues the long-standing tradition of trying to find a way to provide government benefits to the vast middle class without asking the vast middle class to attempt to finance them.

And that is a major, major challenge that we have. Senator Warren and Senator Sanders' wealth tax would not solve the problem of our structural budge deficit. Of course, it would help solve it, but it wouldn't solve it. And what we should be talking about in Washington are what do we want to pay for and how can we pay for it in the best, most efficient way possible. Instead, what we're talking about are, you know, how can we find money trees. And one money tree is modern monetary theory where you can just balloon budget deficits up to as large as you want and there won't be any adverse economic consequences.

Another money tree is to say, okay, well the top 0.06 percent of households are sitting on all this wealth, let's just go take it, and we can use that to eliminate student debt, and we can use that to make college free, and we can use that to pay for everybody's child care, and do whatever else we want. That is not the serious business of policymaking in a public debate that we should be having in this country. We should be tethered much more closely to realty and acting more responsibly with the nation's finances.

MS. RAMPELL: David, one other concern that I've heard raised about wealth taxes, again, as conceived of as as an annual tax on wealth rather than, you know, retrospective capital gains tax or something along those lines is their constitutionality. And I have heard this concern raised not only from law experts on the right but law experts on the left. And I'm wondering if you could walk us through what those concerns are, how valid you think they are, and if they are valid, is that a reason why we should be thinking about other approaches to taxing wealth that don't have as much of a gray area.

MR. KAMIN: I'll see if I can incorporate that into a bit of a response. There's a lot to talk about. So, first, as a historical matter in the United States, I think it is inaccurate to say that taxes have not been debated and thought of about how they change society. The income tax was long debated and fought over and struck down by the Supreme Court in a 5-4 vote in 1895, in part because it was a pushback by the Court on a progressive agenda to create a more progressive tax system which then Congress overrode and the states did in the 16th Amendment.

We have a long history in the country of trying to potentially achieve greater progressivity and fairness through the tax code. I think that is a good thing to do. Now, to get to the question of constitutionality which I began working in. There has been a longstanding debate around taxes and constitutionality, specifically, the thing that ends up getting interpreted is an ambiguous provision, ambiguous from the start, in the Constitutional Convention of the direct tax clause where certain things called direct taxes, we know one thing that is is a per capita tax needs to be a portion according to population of the state.

It was initially interpreted quite narrowly by the Supreme Court in early decisions in the early 1800s. That then expanded as the Court tried to begin pushing back against progressive taxation when they flipped on the 5-4 vote strike down the income tax. The question would be, given the fact that Congress pushed back and specifically allowed income taxation under the 16th Amendment whether wealth taxation would fall under that or whether the court would harken back to the 1895 decision and say that wealth taxes are direct taxes that need to be apportioned according to population which most wealth tax proposals, though not all, would not do.

That is a matter of considerable debate and, obviously, would be -- you know, one can imagine that almost surely going to the Supreme Court. I should also say there is such debate -- some debate among -- there are some people who would challenge mark to market taxes, potentially also raising questions there. I think that is far more absurd.

But I then want to take us back, again, to what was just said. I do think that, you know, that history reflects that fact that we have had long debates about the way that taxes should be used to create a more fair society. And it strikes me that whether or not one believes arguments about the wealth tax reducing, you know, reducing power of those at the top, something I worry about, it is over-determined, from my perspective, that we should be taxing them more, and that we have very good uses for the resources that we could raise more effectively from those who are at the top.

MS. RAMPELL: Did others want to weigh-in on? No?

MR. LEISERSON: Of the constitutionality?

MS. RAMPELL: Yes, or other comments. If not, I'll move on.

MS. MADOFF: I'd like to just weigh-in about -- to the extend you were just responding. Excellent points you made, but I just want to throw in something about Jeff Bezos which I think is -- I think the wealth tax is complicated, particularly about the evaluation issues. I worry about that.

But I think that when you talk about somebody like Jeff Bezos I think what's important to recognize is that it's quite possible that Jeff Bezos' worth -- I don't know, well, he was worth $160 billion. Maybe it's been knocked down a bit from the divorce, who knows?

But if we were just applying basis tax rules, as we know them, he would have paid zero taxes. He would have gone from being somebody worth nothing to somebody being worth $160 billion and paid no taxes to the federal Treasury because --

MR. STRAIN: Currently.

MS. MADOFF: -- it's all -- what?

MR. STRAIN: Currently.

MS. MADOFF: And then down the road, because when you repeal the estate tax and then kids begin -- so, I mean the point is it's the starting point of this. The big problem that we have is we're not taking the wealth of the wealthy at all because we're not taxing -- the way the wealthy get wealth is from inheritance and growth of capital assets, and those are the two things that we're not currently taxing.

MR. STRAIN: So if we're going to move to a system where we tax more of that wealth -- am I allowed to jump it?

MS. RAMPELL: You are. I just want to disclose, by the way, that I work for the Washington Post. Jeff Bezos owns the Washington Post. I don't want to get attacked later for not disclosing that. Please continue.

MR. STRAIN: I work for Mayor Bloomberg. Disclosure. If we're going to attempt to get some of that income, which I think is a perfectly reasonable goal. And one way we might do that is to switch from a system of taxing realization to taxing accrual which is something that we've talked about, and, Greg, you've got a few of those. Why only do it for households above 50 million? Why only do it for household -- Greg, I think you start at 25 million. You know, why not just tax that income?

That's a perfectly consistent and reasonable economic definition of income if you go by a Haig-Simmons income definition. It fits very well with our current income tax system. There are not nearly the issues of implementation that come up. But why stop at 50 million or 25 million? Why not tax everybody's accrued capital gains?

MR. LEISERSON: So, I mean, I certainly think you could. If I were to, in terms of thinking about the different approaches you could use to implement any of these versions, I do think the cost and benefits of doing annual mark to market for the middle class are relatively less advantageous than putting the, sort of, you know, broad upper middle class in a deferral charge system where based on -- you know, at the time of sale you apply a retrospective tax. That's just based on the amount of revenue at play and the, sort of, financial capacity and the resources available at tax filing time. But certainly, you could, right, I mean, I would not personally have any objection to that.

In the context of the chapter I have laid out, right, I'm trying to do wealth and mark to market and internally consistent framework. I've made a number of choices that are about trying to put the two approaches next to each other in a way that facilitates comparability, but there's also a million ways sort of to decide that they could be made more or less comparable, and this is certainly one of them, right.

It makes much more sense to apply a income tax sort of broadly, and the wealth tax I think you sort of keep more naturally in the tail because of the structure. But in that sense, I mean, you know, I have no objection.

I will do one other bit of context here, and this gets back to some of the ideas that have come up in previous panels which is that, you know, any tax system is going to have a variety of tax instruments in it, and they will serve different purposes. You may have -- and we've heard about VAT which the U.S. does not have, but, you know, in lots of countries around the world the VAT is a major driver of just revenue. It's just bringing revenues in the door, right.

And then the U.S. has payroll taxes which are operating -- are economically similar in some ways, not all ways, and are serving in some ways a similar revenue-generating function, right. And then you layer on top of that other taxes, right. And so in the U.S., the income taxes is a huge source of federal revenue and the major driver of the probativity of the tax system.

And where I'm coming at the proposals to tax wealth and investment and to reform that taxation, it's both as part of that income tax sort of concept, is a major source of progressive federal revenues. And so in that setting, right, you know, exactly where you choose to set the rates or the exemptions, right. You can sort of think of that as how do you choose to specific your progressive rate brackets or something like that. It's sort of in that bucket of exactly how steeply progressive and exactly sort of where do you draw those break points.

MS. RAMPELL: So we have a question from the audience that relates to something I was going to ask. What are the potential unintended consequences of taxes on wealth and/or inheritance? Would this affect the economy, saving their investment? Wouldn't the rich just redirect their behavior to avoid them? And I don't know if this a question more for a tax practitioner, such as yourself, Ray. How people might adapt to get around these taxes?

MS. MADOFF: I think one of the things that we really never know about the estate tax is whether it causes people to work harder and save more money because they want to pass on a certain amount to their heirs, or whether it causes them to work less because they get less of a benefit from working. I think it might even be true for all taxes. It's just one of those questions that we don't have good answers to. And I think, frankly, there is no way they could figure out that answer.

I mean, one can say that all the time. You know, whenever there's a new tax and it's like, oh, you know, this is going to change everything. Sort of like, you know, when you had the income tax. This is going to be, you know, this is going to ruin the world. Yet, things move on.

We've had huge changes in income tax rates over time and I don't think they've had too much of a significant impact on how hard people work or things like that.

MR. LEISERSON: I'll jump in on that. In the chapter, I provide a sort of discussion of the economic effects of the various proposals I set forth. And the lens through which I use to think about tax policy and most other policies is one of, sort of, disaggregate welfare analysis or a study of how the policy affects the living standards of the general public. And so in the context of a major tax proposal, I do that using two tools. One of which is the revenue estimate, how much revenue is the tax bringing in? And the other of which is generally referred to as a distribution analysis. I think of it as a burden analysis or analysis of the impacts of the tax on the wellbeing of the public.

And so implicit in that analysis that I provided is a set of assumed answers to these questions. And namely, I think in this context the sort of most material response is the set of planning response that will incur in response to the next taxes and wealth investment income. And these tax a variety of forms, so you have things like low-balled valuations, right, which could be legal or illegal and fragrant.

We have things in the proposals, as I've specified then, I've kept 501(c)(3) organizations exempt from all of the taxes, so an easy way to avoid the taxes is to stick money in your private foundation. So we have all of these different types of effects, and they are -- so all of these different types of effects underlying the revenue and burden analysis that sort of reflect the economic considerations of the tax, right.

And so sort of narrowly to the answer of the question, I think the most material response is avoidance and evasion. I think what that does in this context is it means that the burden impact on rich people is larger than the dollar valued revenue gain to the government which depending on your views of the world, perhaps, you think that's unacceptable, but that’s sort of how those effects manifest.

In terms of the incidents of the tax implicit in all this, is a view that the incidents of targeted tax on wealth and investment income, in my assessments, stay primarily on those to whom the taxed applied. In some sense, these targeted wealth taxes are sort of optimally designed from the perspective of avoiding incidents shifting.

Now, of course, that is not the sole benchmark on which you can design a tax, but that is if you are interested in a tax whose incidence does not shift, and that has limited effects on sort of GDP and other aggregates these types of taxes are very well-designed to that. But, again, stepping back, right, how would I evaluate the economic effects of this tax legislation or any of the other proposals that have been discussed today is through the revenue analysis and the burden analysis.

MS. RAMPELL: So, Michael, I don't know if you have any thoughts on what we know about the growth consequences for taxes on wealth?

MR. STRAIN: Yeah, I mean, I think these taxes would reduce national savings. That would either reduce investment or it would increase capital inflows from abroad which would, you know, require some national income to go back abroad.

You know, my concern about wealth taxes in the magnitude that we're talking about, you know, one of the things about these wealth taxes is that these small numbers have a very large effective. So if you're talking about a 2 percent wealth tax that seems small, but the income tax equivalent of that on, you know, an asset that's growing at 2 percent is a 100 percent tax, for example.

So the question is whether or not the wealth base is shrinking or increasing, and that depends on the return. So when you're talking about taxes that, you know, would be cutting in half these large fortunes I worry about a number of unintended effects. I worry about a lot of potential innovators leaving the United States. You know, I think if you really are taking about these magnitudes for wealth taxes that's, I think, a real concern.

I worry about the effects on entrepreneurship and innovation among people who stay in the United States. And, you know, kind of in keeping with the first question that you asked me, I worry about the more, kind of, corrosive effects of a U.S. president and the U.S. government kind of sending messages that success is -- you know, makes you other. You know, there's us and then there are these people and we need to, you know, go after these people.

Every billionaire is a policy mistake, you know, for example, which is something you hear all the time from, you know, mainstream sources. I worry about the effect that that has on young people and on aspirations and on their decisions about what kind of risk to take and how hard to work and, you know, those sorts of activities.

MS. RAMPELL: Ray, how much should we be thinking about the global landscape when we're talking about these kinds of tax mechanisms? I mean, given that financial capital is mobile, presumably, we've talked about other ways that wealthy people might engage in tax avoidance, but they could leave.

MS. MADOFF: Right.

MS. RAMPELL: How much should we be thinking about that? What do we know about how different countries' tax systems do affect peoples' likelihood of moving?

MS. MADOFF: Right. I do think that it's very concerning. I mean, the problem with wealth tax, as I see it, is still from the problems that we see in the estate tax, right. There's so much money spent on avoiding the tax and the ability of the government to adequately regulate it and respond, you know, it's completely, you know, there's no chance addressing, particularly issues of valuation, and particularly -- you know, so you take something and you cut it into pieces, and then you move it offshore, and, you know, and as we've seen from the Panama Papers and others, you know, these offshore activities are big amongst the wealthy.

And if you have a tax that's imposed every year at 2 percent there's going to be a lot of incentive to devalue wealth and move it offshore. So I do think that is a very real risk. And I also agree, I think there's something that is a little bit -- it's going to be distasteful to Americans, I think, to have taxes that are particularly oriented to the super wealthy.

I think Americans have a very mixed feeling about the super wealthy, and I think that -- I worry that when you have taxes focused on that group that the likelihood of its success is diminished than if you have something that's more broad-based.

MR. KAMIN: I just wanted to jump in there on a few things. So, first, individual level taxation of wealth does have some significant advantages over trying to tax it at the entity level. To be clear, we should be doing both, but as was being discussed earlier, entities have certain ability to offshore profits and then say it's not taxable in the United States. It's sourced in the Cayman Islands.

Individuals, if you're taxing them based on whether you are a U.S. citizen, we will tax you, have far less ability. They have to give up their citizenship.

MR. STRAIN: Some would.

MS. MADOFF: Yes.

MR. KAMIN: Sure. But we are not a small European country, and the --

MR. STRAIN: Not yet.

MR. KAMIN: The experience of a small European country is fundamentally different than our ability to tax and to tax individuals in our market power. So I totally agree, we do have to be worried about whether it's mark to market or wealth taxation, the planning techniques. I think part of the point is this is an attempt to base measures to reduce the planning opportunities.

Final thought, because I just have to -- like, the red meat is out there. So as to whether taxation of the top has, like, been something that has held back the country when we have, like, the rhetoric of saying we want to focus taxation on the top and tax them progressively. Well, I would just note that however effective it might have been, and we can have a discussion about how effective high tax rates under Roosevelt and so on were, at actually capturing income. It was the rhetoric and it certainly didn't seem to prevent two decades of high growth and investment.

MR. STRAIN: Well, I mean, it was the rhetoric until the top tax rates and the statutory rates came down by 60 percentage points.

MR. KAMIN: I understand. There was the Reagan Revolution. I agree there's a debate back and forth, but I --

MR. STRAIN: But before the Reagan Revolution President Kennedy was the first person to reduce the statutory rates, but --

MR. KAMIN: Fair enough, but your point was something broader. That if we have a discussion about taxation at the top that it, like, can really hold back the economy.

MR. STRAIN: We should be discussing taxation at the top. We should be discussing ways to raise revenue. We have a revenue problem. We have a progressive tax code and that progressivity is both morally appropriate and economically appropriate and shouldn't go away.

This is not run of the mill garden progressivity. This is not Barack Obama's progressivity. This is something that is really of a different kind. If you're talking about a 6 percent wealth tax which has been discussed and you apply that to an asset -- if you apply that to a 10-year Treasury note that yield roughly what I think it yields in my mind that's over a 300 percent equivalent income tax rate.

I mean, that's -- Bill Gale is about to run on the stage and attack me. It's high. Bill would agree with that. And, you know, so look it's important to recognize just how radical these proposals by these presidential candidates are.

MR. KAMIN: So I agree magnitudes matter, if we can agree on Greg Leiserson's reforms then we're all good.

MS. RAMPELL: And, actually, I have a question that I think is well suited to Greg on that point. The question is if the ability for tax payers to defer paying tax on investment gains until assets are sold was prohibited how necessary would further reform to wealth taxation be?

MR. LEISERSON: So I think on some level that's what the mark to marketing deferral charges are doing, right. So I intend -- the four approaches I lay out in the chapter in intend to substitute so that you would pick the one that you thought had the best set of advantages and disadvantages, a robust system with deferral charges when assets are sold I think is one totally viable way to go.

You know, if we think back to the very first panel, right, there's a reference to carryover basis and a reference to realization at death, right, and the only thing we need to do to add to that list to really bring all of the conversations together is to have realization at death with a deferral charge and we've just lined up the list.

And there's a Law Review article by Ari

Glogower that sort of in contrast to the options that I've weighed out here that try to sort of accelerate the taxation on some level. He pushes all of the taxation back, in a sense, to -- rather than having publicly traded assets where you accelerate the tax and non-traded assets where you defer the tax. He sort of pushes all the tax back to the end and get symmetry between the different asset classes in that way.

But you have that sort of -- you know, it's a totally viable -- short answer, it's a totally viable approach to stick a federal charge on the income tax, raise the rates up and that's a -- I mean, that would be, itself, a major fundamental reform to the taxation of wealth.

MS. RAMPELL: And I think we are about out of time and I'm just wondering if anybody wants to give any final brief thoughts? No, okay. Then maybe I will have one brief question or I will try to make it a brief question. David, you may be the right person for this.

To what extent should we be thinking about proposals to tax wealth about being about an attempt to correct past policy mistakes that maybe we haven't taxed high incomes adequately enough which is why wealth has been able to accumulate, as opposed to, to what extent should we be thinking about wealth taxes as a means to address ongoing, I don't know if policy failures is the right way to think about it, but, you know, the idea of superstar firms and that there's just, you know, sort of more of a winner take all economy under the current regulatory system and current economic forces you are likely to have greater accumulation of wealth. To what extent is a wealth tax about being more backward looking or more forward facing?

MR. KAMIN: So my overall perspective is that it can be about both. Whether or not the great inequality we see in the country is caused by past failure or ongoing trends in the economy, I think we know that there are those at the top who have a large amount of resources that we can more effectively tax and that we can put towards uses that will help most Americans.

And so from my perspective, I do think some of those questions are really important in thinking through other policies. So whether it's anti-trust and, like, saying, you know, whether we've got firm concentration because, like, they're doing just really good work or because instead are anti-trust policies a fail. We need good answers to that question to figure out our anti-trust policy.

When it comes to tax policy, at least from my perspective, the fact we need to tax more and more effectively is sufficiently overdetermined based on just what we seen in terms of results. Just we know we have these vast inequalities and ineffective taxation. That I think while answers to those questions can be quite important for other policies that we might pursue. Here, to my eye, it's sufficiently overdetermined that we should be doing it. That we don't need to fully know why. We see these vast inequalities.

MS. RAMPELL: Thank you so much to our panel and thank you so much for your questions.

(Recess)

MR. MAZUR: Okay, let's get started. If folks can grab a chair. Thank you all very much for hanging around with us until the end of the day; really, really appreciate it. And we have a really good session here.

I'm Mark Mazur. I'm the Director of the Urban-Brookings Tax Policy Center. It's great to be here with all of you today and it's especially gratifying to share a stage with two of my long-time friends. I'm just really privileged to call you friends, and so I'm really glad to be hanging out with Jason Furman and Kim Clausing.

The three of us worked together at the Council of Economic Advisors in the Clinton Administration decades ago and we got to know each other then. I sort of look like -- our paths have crossed a bunch -- I look like today it's going back in time a little bit and having a conversation about a topic that we care about, tax policy, with a focus on corporate tax policy.

And you all know the drill, but we want you all to participate, so there will be questions that you can pass along to the cards on the side of the room and they'll be brought up here for conversation later in the session.

I know you all have a program with details about our participants, but I just wanted to spend a moment to introduce folks. Kim Clausing from those days at the Council of Economic Advisors now is a Professor of Economics at Reed College. She is an expert on corporate taxation with an emphasis on taxing multinational firms. She has a new book out called "Open: The Progressive Case for Free Trade, Immigration, and Global Capital".

And I can personally attest to her skill at teaching undergraduates because at the Tax Policy Center we've gotten a couple of your students as research assistance and they've been stellar contributors to TPC. So thanks.

Jason Furman, he's had an amazing career, juggled many different roles in economic policy for the last couple of decades. He served as Chairman of the Council of Economic Advisors in the Obama Administration, and now he's a professor of the practice of economic policy at the Harvard Kennedy School.

One thing I learned in my various roles in government was that it's important to draw participants into policy discussions and get them to articulate their policy preferences, their policy goals, and then have them explain why their approach is the better one to address those goals.

I think it's clear to most observers that the corporate income tax we have today is underperforming as a revenue source. It historically has played an important role, it has historically raised a fair amount of necessary revenue, it served as a backstop to the individual income tax, it adds to the progressivity of the overall tax system, and it even serves as a bit of an automatic stabilizer.

The Tax Cuts and Jobs Act that was passed at the end of 2017 overhauled substantially the corporate income tax and business taxation generally. We're not going to focus solely on the effects of that legislation, but rather we're going to take a little bit of a step back and think about a bigger picture, looking at the situation of what we could or should be thinking of the corporate income tax as a revenue source for the 21st century.

So let me start by throwing out a couple of questions to the authors. First, what's the policy problem that you're trying to solve with your corporate tax proposal? And then second, why is your proposal the preferred action for doing that?

And I was told we'll start with Jason, so let's do that.

MR. FURMAN: Great. Thanks so much, Mark. Thanks for the Hamilton Project for organizing this great discussion.

My proposal focuses on the domestic side of corporate taxation and Kim's focuses on the international, so that's probably a logic for the order we're going in. I think we're both -- and Kim can tell me if she disagrees -- trying to solve some of the same problems. One of them is corporate revenue is 1 percent of GDP. That's lower than all but one OECD country, lower than just about any time in the last 50 years outside of recessions and their immediate aftermath.

That's not just a revenue issue, but it's actually a stability issue for businesses. If revenue is way too low, it means something is going to happen in the future, probably something on the business side, and that adds to unpredictability.

Second is a lot of direct unpredictability built into the tax code itself. A lot of provisions that are coming into effect, a lot of provisions that are expiring.

Third, different activities are taxed at very different rates. There's a health debate about what level you should tax capital at, but you probably don't want to tax different industries at different rates, different forms of capital at different rates, pass-throughs, C corps, and the like.

Fourth, there are a few activities that should be taxed at a different rate. If you're doing research and development, for example, that has really large positive spillovers, larger positive spillovers and benefits for companies other than you than what we're reflecting in the tax code today.

And then, finally, tying this to another strand of work the Hamilton Project, myself, and others have contributed to. There's been a big increase in monopoly power throughout the economy. That means a big increase in what economists call super normal returns. So those are returns above and beyond what you would need to justify making the investments, like an extra little rent that you get. And taxing those at a higher rate is a way to get additional revenue while not hurting efficiency. And to the degree it curbs monopoly power, potentially even enhancing it.

So that's the set of motivations for my proposal. Are we doing motivations now, or should I go into it?

MR. MAZUR: Go ahead. Just keep going.

MR. FURMAN: The overall framework I think -- and this is true not just for my proposal for corporate tax, but the way we want to think about taxation now -- is the sort of longstanding decades old mantra of broaden the base, lower the rate I don't think can be our organizing principle anymore. Can't for two reasons. One a broader base isn't inherently better. Some things are better left in the base, some things are better left out of the base. So to some degree what you want is not a broader base or a narrower base, you want the right base.

Second, it's very hard to get the revenue levels we want at the rates we have now or even lower rates, even if you broaden the base in ways that were politically difficult to imagine, and it's impossible to imagine the revenue we want if we broaden the base in ways that are politically possible.

So my proposal would be an example of let's get the base right. Once you get the base right you can raise rates, raise revenue, and increase efficiency. The proposal has a couple of parts. It says you can expense all investment, not just equipment, not just temporarily but permanently, would disallow interest deductions on new debt. Once you do those you can raise the tax rate to 28 percent -- you could raise it to whatever you want and we can discuss where you come up with that tax rate. I'm a little bit open-minded about what is should be. I propose expanding the R&D credit, getting rid of a bunch of loopholes, and resurrect a proposal from President Bush's tax reform commission in 2005 to require all pass-throughs to file as C corps if they're above a certain revenue threshold.

Take all of that together, it would raise $1.1 trillion in the next decade. In steady state it would raise even more than that because some of the proposals cost money up front but raise money later on. The income of the middle quintile will go up 3.5 percent, the bottom quintile 9.9 percent, assuming that it was used for lump sum transfers. And all of that would happen in part because it would add to growth, about 0.2 percentage points per year for the next decade, in steady state raise the level of output by 5.8 percent.

So in summary, with this proposal you can get additional revenue, additional growth, and you get that with this basic logic that you're cutting the tax rate on the normal return to investment, what companies really need to motivate them to buy plans and equipment and put it into service. And you're raising the tax rate on all of the extra monopoly profits, rents, and extra things that won't distort their decision making.

MR. MAZUR: Okay. Thanks.

Now, Kim, same sort of questions. What problem are you trying to address and how is your proposal going to do that best?

MS. CLAUSING: Thank you, Mark, and thanks to the Hamilton Project. It's great to be here today.

I would like to first point out that my proposal and Jason's proposal are very complementary. So what Jason's proposal is doing is making the corporate tax even better, right. It's making a more ideal corporate tax. What my proposal is doing is making sure we can collect that ideal corporate tax in a global economy when companies have a lot of discretion about where they book their income as it is currently.

So the problem I see is that in the international sphere there's a basic tension between having what companies might refer to as a competitive tax system and protecting the tax base. So I would argue that both now and even in prior law, we're doing really well in the competitiveness front. Corporate America has high before tax profits, they have high after tax profits. These corporate profits are high both in historic but also in comparative terms. And corporate America is dominant in many industries and, you know, on the top of most of the charts of like the biggest most successful multinational companies in the world.

So in addition to that there are actually world class tax avoiders. They're very good at getting their effective rates on their most mobile income down into the single digits, right. And so that raises this other balancing issue, which is we also want to raise revenue through the corporate tax. And I think protecting the entity level of taxation is important. I mean one thing we need to remember is that about 70 percent of all U.S. equity income goes untaxed at the individual level by the U.S. government because it's either in foreign hands and thus being taxed in foreign governments or it's in 529s or pensions or IRAs or endowments, or things like that.

So it's important to protect this corporate tax base. If we look at our record in doing so, as you point out, we only have about 1 percent of GDP in corporate tax revenue despite our peer nations having more like 3 percent, right. One reason that it's hard to collect the corporate tax is because of the profit shifting of multinational companies. And my prior work suggests that that's costing the U.S. government at old tax rates about $100 billion a year, at today's tax rates it's mechanically less because of the lower tax rate, but it's still a lot of money that's being lost due to this profit shifting.

So in my proposals I have sort of two strands of thinking. One strand is sort of focusing on the pragmatic progressive taxes that we could do tomorrow within the architecture of the current system. And another strand is focusing on what would be most ideal in the medium run to strive for, to make a stable international tax regime that could stand the test of time.

So in the short run I think there's a lot of really simple things we can do. We can raise the rate. I coincidentally suggest the same rate as Jason, so that's compatible as well. I would also suggest strengthening the minimum tax regime. Right now we have a global minimum tax that's at half the U.S. rate, so it provides a clear preference for earning income abroad. But it also provides oddly a preference for even high tax for an income relative to U.S. income because you can use the tax credits from the high tax foreign countries to offset the tax that you would otherwise pay on your haven income. So I suggest instead moving to a per country regime, which would discourage profit shifting for all multinationals irrespective of their credit status. And I also suggest some other tweaks that would remove some of the off-shoring incentives that are in current law.

So that short-term proposal, in addition to the revenue raising from the statutory rate, you'd get another, you know, $500-600 billion from the other international provisions over 10 years.

So in the more medium run I think it's useful for us to work with other countries on reforming the system in a way that's fundamentally stable. So one problem with the sort of minimum tax solution is you could say, okay, well, it doesn't seem fair to the companies that are headquartered in the minimum tax countries relative to the companies in countries that might not have such a regime, right. So if you moved instead to a system of formulary apportionment, which is what I suggest in the medium run, then effectively you'd be taxing all multinational companies, whether they were U.S. or foreign, based solely on their worldwide income and you'd attribute a fraction of that income to different tax bases based on where real economic activities are occurring.

There are a lot of other countries that are worried about these profit shifting problems. So it's not so much that they would be reluctant to also look at solutions like this, but working toward that solution requires a lot of thought about implementation and it does require some international consensus building. But I would point out that even if just a subset of countries adopt, there will be built in incentives for other countries to adopt, because otherwise they will lose tax base to the formulary countries because you can shift income towards all formulary countries without affecting the burden there, but reducing your burden at home.

So I think that's a very elegant solution that's suited to the global economy because, you know, most of the actions that you take in a globally integrated business wouldn't fundamentally affect your tax liability. And it's also suited to the intangible nature of economic value, because a lot of value these days is hard to identify the true location of. It could be anywhere.

MR. MAZUR: So, Jason, one of the points that you have in your plan is complete expensing of investments. And that reduces the cash tax payments and is supposed to be an incentive for firms to invest more in more productive investments. But when we've had bonus depreciation in the past we haven't seen that big increase in investment. Is that because firms don't react to that? Or do they focus on their financial earnings or what?

MR. FURMAN: So I first of all might be forgetting the right subset of co-authors, but when Mahon and Zwick -- and I believe it was their paper -- somebody can shout if I'm wrong -- studied the experience in 2009 they actually found quite large effects from bonus depreciation. And they were looking not in the macro data but the micro data.

MR. MAZUR: Income shift.

MR. FURMAN: Yeah, a bunch of that was timing. So I think most of the times we've done this, we've done it temporarily and we've looked for macro effects and a lot of that has been shifting. That's not what this proposal is about.

I should say that even if you don't love the combination and you think it won't work -- you know, people have raised behavioral arguments against it, for example, that I find not -- and I don't know if Lily here -- am I about to insult Lily -- I don't find as compelling for a regime shift where everyone is changing permanently as I do for if you interview a CEO about how they're going to behave tomorrow. You know, even if you don't like it, it raises money in the long run. So if you like money, you should like the proposal. I'd argue if you like growth, you should like the proposal too. (Laughter)

MR. MAZUR: For Kim, so what do you focus for your apportionment on sales, a one factor apportionment factor rather than the more traditional property, payroll, and sales, three factor approach?

MS. CLAUSING: So I think part of this is a judgment about how many countries you think you could bring along and agree on the formula. Let's say that you can't bring anybody for a starting point and it's just you. Then I think the sales factor makes particular sense because if you sort of imagine a non cooperative game where different jurisdictions are setting formulas, they will have an incentive to choose sales because they will be fearful that if they weigh employment or assets -- and assets are hard to measure, which is why I wouldn't include them regardless -- but if they weigh employment, say, that they'll discourage employment in their jurisdiction. And we have actually experience on this in the U.S. states. It used to be that almost all states used a three factor formula and then they gradually have moved more and more to heavily weighting sales. And now it's just a small minority of states that have the three factor formula and a lot are either single weighting sales or more heavily weighting sales.

So in a way you're sort of anticipating that dynamic and moving straight to the sales equilibrium. If you can imagine a world where there's instead international consensus on the formula and we decided to dream up our perfect one, I think I would have, you know, a more balanced where you did sales maybe for half of it and you did employment and payroll maybe one quarter each for the other half. The advantage of doing that is it seems fair to jurisdictions that might view themselves as production jurisdictions rather than consumption jurisdictions.

You know, from an economist perspective that's a little less persuasive because we tend to think well, you know, aside from the deficit, production and consumption are similar. But you might be a country that has highly profitable multinationals that sells throughout the world and you might be like well, you know, since we're producing that here we should have some claim on that. So I think we can imagine formulas that might be more balanced, you know, across those needs.

And I would also point out that from the perspective of developing the countries, this system it stands to be quite a bit simpler for them to administer and would probably help their revenue. If you look at revenue losses relative to GDP for developing countries, they're even higher than ours. And in the case of natural resources, you could have a different system.

So if you did have a lot of oil rents or mining rents you could have a separate carved out tax system for those in those cases.

MR. MAZUR: And so your two proposals pretty much complement each other. Looking back on one of the other panels, does the Sarin-Summers work also complement the stuff that you're talking about?

MR. FURMAN: You can go first. Or maybe entirely.

MS. CLAUSING: I think it does. You know, if you look at their approach, they're sort of looking at things that we can do within, you know, the broad parameters of current law where we can raise a lot more revenue with relatively simple things that are ready on day one.

I think that there's nothing wrong with looking at the bigger things, but one of the problems with putting a lot of emphasis on big new things is that if you don't manage to do it, or if the Supreme Court strikes it down, or something tragic like that happens, then you're going to weigh -- lost some of your ability to make use of that particular moment in time.

So what I did is sort of like in between. So I sort of said, like okay, here's what you do, sort of simple and within the confines of the current law and here's the stuff that you work on the medium run. And I could imagine doing that surround capital taxation too, where you could say well, we're going to start by doing realization of debt, but we're going to start looking at market to market, which is going to take longer to implement and have more nuance there.

MR. FURMAN: I mean I think with any one of these proposals, I mean you first of all have the feature that, you know, businesses to the first approximation -- and probably second and third and fourth approximation -- care about average tax rates, which is to say how much they're writing to the IRS. Economists who at least do a first approximation care about marginal tax rates, which is what matters for economic activity. And I think businesses sometimes exploit the confusion between those two terms. So you're trying to understand, you know, the politics of trying to get something done. I think it's important to understand that.

I think it's also worth looking at the experience of 2017 where some elements of the House Better Way plan actually were reasonably well thought out. There were a lot of problems with the rates and other things in their proposal, but some of it was relatively well thought out, but it looked like it had been thought about in a seminar. And like destination based cash flow tax being the best example of that. Whether you think that's a good idea or a bad idea, it certainly has a lot of merit, certainly was a serious proposal, but it was a really academic thing. And it was the type of idea you come up with if you think your presidential candidate has no chance of winning and you're not actually going to be legislating. (Laughter)

And so I think for ourselves, I'm not positive that whether Kim's proposal, my proposal, you know, fully passes this test, but I think that's one test you want to pass -- you know, if somebody who is sympathetic to your idea does actually win, is not just an academic proposal, is it something you could actually go ahead and do.

MR. MAZUR: Now, one thing that's kind of interesting is when you're thinking about the corporate income tax rate there is a lot of input that goes into figuring out where the rate should wind up. You both ended up at around the same place.

How do you get there? What are the tradeoffs? Do you care about a competitive system, do you look at other countries and try to find the U.S.'s place in that range, or what?

MR. FURMAN: Maybe I'll start. I mean I had a macro economic model, one that I developed with Robert Barrow, and a relatively standard one that we used to quantify the impact of the 2017 law. And that's exactly what I used to quantify this.

That model has the property, as do a lot of similar models, that I could have put in a 99 percent tax rate and you would have had roughly the same effects on growth with much more revenue. And that's because that tax rate affects the average tax rate, the checks the companies are writing to the IRS, and doesn't affect the marginal tax rate once you have expensing and disallow interest.

So one thing I could have done, is said I believe my model and proposed a 99 percent tax rate (laughter), but I think some things are left out of it. You know, one of them is in some circumstances average rates matter for like large lumpy location decisions. I think that's a much smaller factor than the ones that I took into account, but I think as the rate goes up it matters more. And then the other, which is central to Kim's work and will segue to whatever she wants to add or correct to what I'm saying now, is it's a little bit like when you have different water levels. You know, tax rates in country being higher, one country being lower, you know, the water tries really hard to seek the lower water level and it just does whatever it can. And you can put obstacles in the way, you can put all sorts of rules, all sorts of transfer pricing, all sorts of whatever, but I think there's probably some limit to the difference you can create between tax rates here and tax rates elsewhere. Twenty-eight percent entirely scientifically seemed sort of toward the top of the G7, which I think is appropriate if we had this type of tax base. I would only do it if we did international changes of the type Kim is proposing and that we're also a larger country that relies less on, you know, inbound and outbound investments.

So I think for all those reasons, if we do the right things, we could be at the high end of the G7. Could I prove 35 is a bad idea? Definitely not. Would I rule out 99? Probably, yes. (Laughter)

MS. CLAUSING: One of the things that I like about Jason's paper is his emphasis on market power. And I think one thing to recognize is even if we made none of the wise changes that he suggests, the corporate tax as it is today is falling disproportionately on above normal returns to capital. And what means for all of you who studied in law school or econ at some point is that when we think of those old models of corporate tax that we first learned, they were about sort of taxing the normal return to capital. We're not really doing that much of that right now, we're mostly taxing this excess return to capital. And so that implies all things equal that the efficiency cost of that tax are maybe lower than you might have learned 30 years ago if you just opened an econ textbook.

So I'm sympathetic to higher rates than the 28. Why I chose 28 was in part because of this international concern. I do think there is a chance in the coming years to work with other countries, whether it's through a coordinated minimum tax approach or whether it's through something like formulary, to try to build the consensus. And one of the interesting things about our minimum tax, even this little one that we have now, is that it also protects the tax base of other non haven countries. And to the extent that they adopt minimum taxes, it will also protect our tax base. So if we think about it, there's a way to change the sort of game theory equilibrium from the sort of prisoner's dilemma where everybody is lowering their tax rate and getting something that's worse for them than they would if they could coordinate to everybody raising minimum taxes and actually helping each other. And I think that might be easier if we start with a rate that seems reasonable to other people.

And I would certainly couple whatever we do on the corporate side with stronger individual level taxes. And people haven't talked about other things that we could do there, but another option is also limiting how much we let people put tax free into things like pensions and 529s and endowments and charity. You know, like those kind of things.

So I think that there is a lot we can do, you know, to support that.

MR. MAZUR: So you're talking about taxing the super normal returns. Does it matter whether those returns come from ingenuity or skill or market power or monopsony power on a part of employers? Or is it all the same thing?

MR. FURMAN: You can go first if you want.

MS. CLAUSING: You know, I don't think it matters a lot in the sense that some of what we see in the corporate tax base is we could think of it as a return on luck. Like it's not really clear that Bezos and Gates and Zuckerberg were motivated by the tax rate when they undertook their entrepreneurial ventures, right. But they managed to be in the right place at the right time and they ended up with, you know, extremely successful corporations and very high personal wealth. And so I do think when we are sort of thinking about the tax system and we're imaging taxing these highly successful corporations and individuals, you know, I think relatively modest taxes are the types that we're suggesting, the types that were suggested in prior rounds today, probably will leave American capitalism very much intact and successful. Like I don't imagine that there will be fewer startups in Silicon Valley or Seattle or elsewhere because, you know, they might have to actually 28 percent as opposed to being able to shift to Bermuda.

MR. FURMAN: Nothing. Agree.

MR. MAZUR: Nothing to add to that?

So one question that came from the audience, how would these proposed reforms address tax avoidance behavior?

MR. FURMAN: Much of the tax avoidance that we worry about is on the international side, so that would be in Kim's proposal.

There is some rifle shot loopholes left in the tax code, but not that many. The bigger issues are just structural ones. For example, can you expense your investment and then deduct the interest on it. That's something that for the most part you can do right now. There are some limitations on the interest deduction, but a lot of companies aren't bound by it. I wouldn't call that avoidance, I would call -- and I wouldn't call that sort of a rifle shot loophole, I'd call that a major structural flaw in the tax code. So I'm definitely more focused on those major structural issues in the tax code, which is where that plus the international shifting is where I think the big money is.

We should also have more IRS avoidance -- for IRS funding enforcement and the like as well of course.

MS. CLAUSING: Yeah, absolutely. I would second all the points about IRS funding and then that was mentioned earlier today too. And I would also point out that one of the harder things in the international sphere isn't the globalization of activity, because we do have tools that are quite successful at taxing that activity if we wanted to. The hard part is the political will, right. A per country minimum tax would be quite effective and difficult to avoid. But it's also not particularly popular with the corporate community.

So I think that's another reason to sort of think about, you know, how bold we want to be with our proposals. I mean maybe by moving the Overton window on some of these things that gets us back to something that's quite reasonable, that it can be like oh, well, they're not expropriating at all, so we're good with it.

You know, so I do think the political will issue here is a really big one and hard to predict.

MR. FURMAN: Just to add to that, I mean we had a per country minimum tax that we proposed in the Obama Administration, and I don't want to seem totally cavalier about simplifying the tax code, which we're all in favor of, but one of the arguments some of the multinationals came in with was oh, this would be really complicated. We'd need to keep track of our profits in the 50 different countries we're in rather than just adding it all together and having 1 profit line. And, you know, to me that didn't seem that hard (laughter), but I'm not the one like doing the addition and stuff. Even if it was that hard, that just -- whatever difficulty that was is so massively outweighed by the set of both revenue loss and perverse incentives you get when you combine the countries together in the way that was done in the legislation, that I just have no patience for that simplicity argument at least.

MS. CLAUSING: And you could always give them a choice. You know, if you like you may have the U.S. rate and combine it or you can have this lower rate and we'll do per country. And if the complexity is really that tough, then they'll choose the higher combined one.

MR. FURMAN: We did try to get her to work in the Obama Administration. (Laughter) We could have had that idea. But it just felt better in my meetings.

MR. MAZUR: Brings up an idea that traditionally tax information has been private, right? So it's not allowable to be disclosed without criminal prosecution. Would it make sense to relax that say in the corporate area so that corporate tax information would be public, either revenues, tax payments, and maybe even where those revenues had been earned. Would that be a step forward?

MS. CLAUSING: I personally really like that. If you look -- there was a recent Shell report where they decided to just publish their country by country information, and it was sort of fascinating there, like we earn this much in Bermuda, and then they had a little explanation about --

MR. MAZUR: So they could do that? How come they didn't tell you that? (Laughter)

MS. CLAUSING: And they told you all of the different countries where they were operating and their profits and what they paid in tax and it did have its sort of spin about like -- because they counted a bunch of taxes that they were really paying on behalf of their employees and whatnot. But I actually think corporations have a role in our society that is broad and that justifies public attention to their affairs. And I would have, firstly, no problem with requiring public release of the country by country data, for instance. And I think it actually could be a market friendly nudge towards more social responsibility in one's tax planning, right. Because if you don't want to tell all of your customers and potential employees and investors that you managed to get all the income into Bermuda, then you won't do that, then you won't put all the income in Bermuda.

And so I think having companies tell us that I don't think is an unconscionable thing to do.

MR. FURMAN: I mean it would also be great for Kim's research if you sort of disclose that conflict of interest. (Laughter)

I'm sympathetic to it. I don't think it would be a massive change. I think changing the tax laws is more important. And I do think there is a problem -- this is an argument against it -- that people do misinterpret these corporate tax numbers. I mean in any world you're going to have years where companies are paying zero taxes maybe because they have loses, maybe they didn't even have a loss, but they had a carry forward from a previous year. If you're going to do expensing and disallow interest deductions, actually quite important to let companies carry that forward and carry that forward with interest.

So I'm not saying I would keep information from the public because the public is going to misunderstand it, I think it would raise the premium on people correctly interpreting and contextualizing these numbers in a way that some of the newspaper articles sort of I think accidentally get it right because they're onto something. Corporate revenue is 1 percent of GDP, so in some sense I'm sympathetic to any illustration of it being too low. But it is the case that if we happen to have the corporate system right, which we don't right now, you'd still be inaudible able to write some of those stories.

So I think it's sort of a two wrongs makes a right now.

MS. CLAUSING: I agree with that, but I guess let me just add one tiny wrinkle, which is I think one of the --

MR. FURMAN: It's a debate. (Laughter)

MS. CLAUSING: One of the problems right now is that we wait for some journalist to blow the lid off of, you know, like some company that's avoiding taxes rather than systematizing this information. So if we did have companies releasing it in a systematic form, it's possible the public would learn a little bit about like, oh, well, that company had a loss, whereas this company put it all in Bermuda. And, you know, I don't think there's anything wrong with making that a little more systematic and a little less salacious.

MR. MAZUR: So, Jason, one of the big changes in your proposal would be to tax non corporate entitles, S corporations and large partnerships as corporate entities. And what we've seen over the last several decades is more and more income being earned in these pass-through businesses.

You sort of gloss over as like oh, we do this, but it's a big change.

MR. FURMAN: Yeah. Oh, yeah, I think it's hugely important. I mean we had a proposal -- I think we worked on it together, Mark, if I remember correctly --

MR. MAZUR: I think so.

MR. FURMAN: -- to have a 5 or 10 percent surcharge on pass-through entities to basically equalize their tax rates in the Obama Administration. That proposal wasn't nearly as popular as destination based cash flow taxation was in this Administration.

(Laughter) But I think it's so important and I don't -- you know, and you get a lot of complaints, like oh, it's really unfair -- this gets to sort of how you shut down (inaudible) -- it's really unfair. These people get this tax rate, I get that tax rate, it's different, blah, blah, blah. Well, this sort of gets rid of it because now everyone is getting the same one and no one can complain anymore. But, yet they can.

MR. MAZUR: So it's like the flip side of the special deduction for pass-through businesses?

MR. FURMAN: Yeah exactly. It's the flip side of that. And, you know, I don't think there's that much economic importance to being able to organize yourself as an S corporation, for example, as opposed to a C corporation. And in general we know in tax systems elections we have a choice between different things that aren't that fundamentally different lead to extra complexity, lead to distortions, lead you to end up losing revenue. And a lot of the most difficult things in business tax reform are when you change one part of the system the way it impacts the other part of the system. This just makes it all above a certain level one system.

So I think it's a really important idea and I'm going to bet that it's definitely an important idea.

MR. MAZUR: Final word?

MS. CLAUSING: I just agree with him on that. And I think it's a general rule of thumb for all of us who care about tax revenue is to try to avoid discrepancies that are based on things that don't have economic meaning. You know like what is your organizational form, or where is the location that some account assigns the profit. But also if we think about capital and labor income, right now we've got a big preference for capital income relative to labor income. Some people high up in the distribution can make some hay out of that, but a lot of lower and middle income people are just paying that higher labor income rate.

So the more we can make things more uniform I think the more we can get a decent tax base at a reasonable rate.

MR. MAZUR: Okay. Thank you, Jason, thank you, Kim, for a great discussion. Thank you all for paying attention. (Applause)

MR. SHAMBAUGH: So that's the end of the event today, so thank you all for staying to the very end and thanks to all our panelists and all our authors.

And there's a reception out through those doors right now.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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