Taking on tax: The past, present, and future

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The Hamilton Project at the Brookings Institution

Agenda

Welcome

Robert E. Rubin, Former U.S. Treasury Secretary; Co-Chair Emeritus, Council on Foreign Relations

Fireside chat

Peter Orszag, CEO of Financial Advisory, Lazard Freres & Co LLC

The Honorable Paul Ryan, Former Speaker of the U.S. House of Representatives

Moderator: Catherine Rampell, Opinion Columnist, The Washington Post

Discussion: The future of tax policy

Natasha Sarin, Associate Professor of Law, Yale Law School

Moderator: Wendy Edelberg, Director, The Hamilton Project, Senior Fellow, Economic Studies, The Brookings Institution

Roundtable discussion: Exploring policy options, trade-offs, and consequences

Kimberly Clausing, Eric M. Zolt Chair in Tax Law and Policy, University of California, Los Angeles School of Law

Kyle Pomerleau, Senior Fellow, American Enterprise Institute (AEI)

Nirupama Rao, Assistant Professor of Business Economics and Public Policy, Ross School of Business, University of Michigan

Moderator: Ben Harris, Vice President and Director of Economic Studies, The Brookings Institution

RUBIN: Okay. Good afternoon. I'm Bob Rubin and on behalf of my colleagues at the Hamilton Project, pleased to welcome you to today's discussion of the future of tax policy. A truly difficult but extremely important issue. We're delighted to have with us the former Speaker of the House, the Honorable Paul Ryan, and the former CBO and OMB Director Peter Orszag, I guess, is also honorable in his own way. Yes. Okay. Another highly respected what you and I and other highly respected experts who provide insight on what is really a very difficult topic, both substantively and politically. Let me just start discussion with two data points. First, roughly 45 to 50% of the increase in the publicly held debt of the federal government from the year 2000, which happen to be when I left government. I left July 29, near 2000 until the end of 2022, according to two nonpartisan analysts, was about 40 to 45%, no more like 45 to 50% actually due to tax cuts. Number one to CBO projected that our debt to GDP ratio, which is now 100% or thereabouts, would be 118% ten years from now. But analysts who are not subject to the conventions of the CBO projected more like 130, 235%. And I know people who are very serious about these topics and think that the actual number, the risks are on the upside, not the downside. My view that this is an unsustainable fiscal trajectory is going to create terrible problems with respect to interest rates, which could at least create terrible problems, expect interest rates, inflation and the availability of funds for public investment. And in the final analysis, and the ultimate risk, of course, would be financial crisis. Tax cuts passed in the prior administration, as you know, expire at the end of 2025. And we are probably going to have a very vigorous tax debate in this country. Therefore, this is a good time to prepare ourselves for that debate. We have an opportunity to improve tax policy and to address what are now rapidly increasing debt to GDP ratio. But the politics and the substance are very difficult. We're fortunate to have excellent proposal by Kim closing Natasha sarin to inform today's discussion. And Hamilton Project today released principles for assessing proposed reforms. Natasha and Hamilton project director Wendy Heidelberg will discuss the polls. Key takeaways. But first, we are honored, delighted to have and welcome to our stage Paul Ryan, former House Speaker Peter Orszag, former head of CBO. A.B., Gentlemen, it's all yours. Oh, I forgot. Yeah, okay. I forgot to mention Catherine Rampell. Catherine will - I apologize. I apologize. Now she'll write a nasty column about me. Peter said she would have done that anyway, with ample evidence. At any event.

RAMPELL: I only use my powers for good. Don't worry.

RUBIN: Catherine, welcome.

RAMPELL: Thank you. So, thank you, everyone, for for joining us. And thank you, of course, to former Speaker Paul Ryan and former OMB director and head of CBO, Peter Orszag, to talk about where we've come from, how we were basically how we got to this point that so much of the tax code is sunsetting and where we are likely to go, where we where we would like to go and where we are likely to go, I guess, are two separate questions and then how things might be different as negotiations shape up going forward than they've been in the past. So, Dr. Orszag, I wanted to start out by asking you how we got to this point. Why is so much of the tax code sunsetting? Why has so much of the tax code sunset? Basically every time we're talking about a tax code overhaul? And how does it work?

ORSZAG: [off-mic] Sure. Well, first, let me just say, it's a delight to be back. And it's obviously with regard to why we're here, I think the original sin here, as you played, as you could look up and I think was given was in 2003 was the 2001 23 tax cuts, because before that, those tax cuts, there were sunsets in the tax code, but they were pretty small. And then what happened is the 2123 tax cuts were sunset budgetary.

RYAN: Peter you're --

ORSZAG: Still not on? Paul Ryan solved the problem. The light is green. So let me start again.

ORSZAG: Let me point out, Paul Ryan introduced me at my confirmation hearing. Would never happen today. And now I have Paul Ryan fixing my mic.

RYAN: Comes around full circle.

ORSZAG: So the original sin here was the 2001-2003 tax cuts. Bill Galen and I had written about this before that period of time. There were sunsets in the tax code, but they were very small. The 2000 103 tax cuts were sunset for various budgetary ten year window bird rule reasons that we could go into, but I don't think are relevant. And thereafter we've just kind of rolled the sunset so effectively I mean not quite true, but effectively we haven't made anything permanent because doing so has its own set of budgetary and other issues. So we we played the trick once of the sunsets really exploding, and then we've just rolled them time after time after time.

RAMPELL: What do we know about the effects of that impermanence or uncertainty on the objectives that are are named for these various tax changes?

ORSZAG: I think in general the evidence suggests that having more certainty is better. I would say I think especially, you know, most quote middle class people, which is defined to include 99% of the population, assume that, you know, most of the tax cuts that are in place today will be perpetuated. So I'm not entirely sure that there's a massive amount of behavioral response to the uncertainty that's created from the sunset, because most people correctly assume that for the bulk of the tax cuts will be propagated because both political parties are in favor of that.

RAMPELL: Speaker Ryan, could you talk us through how you decided what parts of the TCJA you decided to make permanent versus temporary?

RYAN: It's pretty easy question to answer. We made permanent. First of all, we only had we wrote our budget resolution to the current policy baseline that he just described. The current policy rolled over with the fiscal cliff that Boehner and Obama did. And then we we Kevin Brady and I decided that we would make permanent that which we thought for for for economic reasons, certain reasons and political reasons needed to be made permanent. The corporate rate, the territorial system. And we made temporary that which we thought had a better chance of withstanding extension under any conceivable political arrangement in the future. The individual income tax provisions expensing that kind of 199. So we made temporary what we thought could get extended, we made permanent what we thought might not get extended, that we wanted it to stay, keep permanent.

RAMPELL: What can you elaborate a little bit more like why did you think that the corporate side, well, would not get extended?

RYAN: Actually, the reason my my prevailing thinking there wasn't really politics. It was it was it was we wanted to convert from a from a worldwide system to a territorial system and get our rates down to globally competitive rates. You throw in the average 4.8% state local taxes. We're basically in the middle of the pack, which is where we wanted to be. And we we knew that long term decisions really were at larger corporations. And so we wanted to make sure the companies that were at the time seeking to re domicile never thought that again. Inversions would stop. So we really believed for economic reasons, we needed to make that permanent. The reduction in the corporate rate and the conversion over to a territorial system. We also thought, though, in addition to that, that should we have, say, divided government or lose control of all three, the House, the Senate and the White House, that it would be easy for the corporate rate to snap back up and it would be very bad for our economy. So we made that permanent. We thought it would be easier to extend the individual tax provisions because when when when, when when he was in government and we were in government, everybody made those those provisions more or less permanent.

RAMPELL: I realized I was supposed to instruct the audience that I think you got note cards of some kind. If you have questions, they'll be collected, I believe, throughout and brought up to me.

ORSZAG: Catherine, can I make one really quick point on the corporate provisions in the 2017 Act? As was recently pointed out to me, but I had not been paying attention, so if anyone else has not been in the intention, you should. It's not just the legislative piece of this, but the more versus the United States case that's before the Supreme Court, which has to do with one of the provisions in that 2017 law is a really big deal for some core principles behind not just the corporate income tax, but the income tax writ large. So this is more than just the sunset that, you know, is in play. Yeah.

RYAN: As a person who drafted that, the goal was to finance a conversion from one system to another, and it wasn't to. To justify your wealth tax. And if. If they. I'm. My friends at the Mercatus Center. Their heart's in the right place. I think they're misfiring on this one. I mean, a lot of the tax code would be unconstitutional if that thing prevailed. You know, subpar. I can just go on and on and on. So I think I think it's a misguided challenge, in my opinion. And the point of that was just a temporary conversion from from worldwide to a territorial system. And the budget windows, you when you work with those are the kinds of things you have to do. I'm not for a wealth tax, but I think if you use this as the argument to spike a wealth tax, you're going to basically get rid of, I don't know, a third of the tax code. So I think that's. Be careful what you ask for.

RAMPELL: Actually that the that case that more was on my list of things to ask you about I.

RYAN: We covered it, good job.

RAMPELL: Yeah that's fine. I'm curious if you were thinking about the risk of litigation like this when you were writing the law.

RYAN: No, not on this. On this particular one? No, because it is. No, we we, we we looked. We read from the camp draft on. I want to go back like two chairs before me. We looked at this. We probably tested this idea for a good six years before we put it into law about financing the conversion over to a territorial system. And the one time exchange and we we figured out how to tax you know, you tax liquid money one rate, you tax illiquid money another rate, and we have a ten year window to do it. And we tested that idea, I want to say a good six years before we put it in the place. Okay.

RAMPELL: So, Dr. Orszag, you know, we've been talking about how the political division within the control of the houses of Congress and the presidency might affect some of these negotiations going forward. When I asked you earlier about sunsetting and why things were sunset, it's partly because they were all they always were passed along party lines. Right. That you kind of needed a very narrow vote to get through -

RYAN: Use reconciliation.

RAMPELL: To use reconciliation. I'm curious. If we have divided government, 2025, how do you think that affects negotiations over reforming the tax code?

ORSZAG: It obviously makes it more difficult. And it's not just divided government. We've always had divided government, but it's you know, it's a much more polarized environment. I mentioned earlier that Paul Ryan introduced me at my confirmation hearing. I just don't think any Republican member of Congress would introduce a Democratic Cabinet nominee, period. Today is rare. Then it would be nonexistent today. So it's just much more complicated. Now, that having been said, there are large swaths of agreement that, quote, middle class tax cuts being, you know, a big part of that. So I think it it just takes the other components and makes it much more challenging to get an agreement, which means inertia will. Be a little bit more dominant, which means the current law baseline that we normally kind of, or at least a lot of people don't pay much attention to probably matters more because the the default with nothing happening is current law, not current policy.

RYAN: Yeah, I think it will look like what Biden, Obama and Boehner did on the fiscal cliff will look just like that, which is going to be work. I think we'll keep expensing. That's pretty hard to argue against expensing. I think that's a pretty easy argument to make. 199 a we're going to we're going to bring this that pass through up to, what, 44.6% when the see corpse are staying at 21. I don't think that's going to happen. I think we'll keep on 99 and then it will be something like the fiscal cliff deal with Obama in 20 1415, which is the top rate, probably goes back to 39 six and everything else stays the same because the Biden promises middle income taxpayers 400 grand or less. Let's throw Biden inflation on there. Let's make it 450, you know, 450,000 --

ORSZAG: Couldn't help yourself.

RYAN: I just had to get it out there, you know, and there you have it. So I bet I bet that's what it looks like. If it were, let's just say we're going to have divided government. My guess is we are that probably what to look like. So the question is, are there reform things on the table? I don't know. I think. Oh, look what I just said.

RAMPELL: So what I'm hearing from what you're saying is that divided government means less revenue, not more.

RYAN: Well, divided government means if if they have 60 votes, then they can do whatever they want. They're not going to have 60 votes. If we have 60 votes, we're going to do whatever we want. Let's just say we want everything and we have to reconcile. We can reconcile for ten years the current code. So I think the difference here is going from 37 to 39.6 on the top rate, and that's probably about it. I don't know. There should be big salt. No, I know that's what you just saw. The other you want an honest answer? That's what I that's what I think the political tealeaves read. I would get rid of all of the salt now. I couldn't. We kept it at 10,000 because that's where the votes were. We wanted to zero. It's 10,000 that's going away. That pays for a lot. I would do the KTC with that personally, but we can get into that argument in a minute. But I think you're going to have you're going to have base broadening debates. You'll have a CTSI debate which has some bipartisan veneer to it, and then you get to have papers for that stuff. But as far as the current policy baseline is concerned, it's going to look like this with maybe because we'll have divided government, the top rate probably slipping like it did in the fiscal cliff.

ORSZAG: The way I would frame the divided government thing is at the margin, it makes revenue increases that are embedded in current law more likely and at the margin it makes new stuff carbon price or whatever your favorite revenue raiser less likely. Yeah, because anything that requires action is just harder.

RAMPELL: Well, but you said earlier well, I think you said earlier that Democrats have also agreed not to raise taxes on the bottom 95% of the population. Right. But that has been raising taxes has been interpreted as not allowing --

ORSZAG: I understand, but I'm just saying. So for them, for the bulk of the tax cuts that are embodied in current, currently, those will be propagated. But for example, Paul's point about the top marginal rate, if my point about the divided government is if instead of it being sunset, you wanted to go out and affirmatively raise the top rate. That's not going to happen. So it's only because it's embedded in in the sunset current law that it's, in my opinion, likely.

RYAN: He's exactly right.

RAMPELL: Dr. Orszag, what do you make of the fact that essentially both parties have ruled out tax increases on the bottom, whatever, 95% of the population, or if we're raising the threshold to 450,000?

ORSZAG: Well, that's also I think it goes way back because, you know, President Clinton running for office in the early nineties said I won't raise middle class taxes. And that was defined, I think, at the time as $200,000. It meant 98% of the population was, ah, 99, whatever. So we've defined the middle class as being almost everybody and said we're not going to raise taxes on middle class. So that means, you know, a lot of the potential revenue increases are ruled out.

RAMPELL: That's interesting. I mean, my interpretation of of what I'm getting, my interpretation of of why that threshold has been rising to 400,000 or maybe going up is partly about the changing demographics of the Democratic Party, that it's increasingly highly, you know, college educated higher income voters.

RYAN: Blue states.

RAMPELL: So but you think --

ORSZAG: Part of it's and part of it's inflation, because back to Paul's previous point that the threshold just get and part of it is if you've already carved out 98% of the population, why not go to 99? And part of it maybe, you know, demographic.

RYAN: I mean, blue states, you got firefighters making you know what good six figure salaries. Not where I come from, but, you know, in New Jersey or places like that. So, you know.

RAMPELL: So I asked Dr. Orszag a question about the significance of Democrats also capitulating on not raising taxes on the middle class, meaning almost everyone. Speaker Ryan, I'm curious. Both parties also seem to have come to an agreement on a more anti-corporate stance in recent years. It used to be, I think correct me if I'm wrong, that Democrats were more likely to position themselves in opposition to corporate America, however defined Republicans had a warmer relationship. That's changing in recent years. How do you think that affects the contours of any debate?

RYAN: I think that's fair to say, but I don't I think that debate probably plays itself out in other policies than tax policy. I don't think, for instance, the Ways and Means Committee right now is firmly in the same place it was when I ran it, when Kevin Brady went, when Dave Camp and Bill Thomas ran it. I think it's except for on trade and I think it's other issues I don't think in this particular. The area, you're going to see sort of an anti-corporate populism from our side. That's going to be that's going to manifest itself in trade policy and in ESG anti-energy policy and regulatory policies.

RAMPELL: So you don't think that there's any bipartisan consensus on doing something on the corporate tax side?

RYAN: I don't think I don't think so. No. Well, look, I think I'm in the reform camp. I assume where you want to go to that part of the conversation. But note taking this code as it is currently constructed. We just spent years trying to rewrite the code. We finally got it done in 2017. There is not a desire or an appetite to undo all of that.

RAMPELL: What about like on the the book minimum tax that was recently.

RYAN: Not a fan of that, personally, I would do it.

RAMPELL: But I'm ask -- but I imagine you're not a fan of it, but your successor --

RYAN: So no, no, but no, since my successor is very much not a fan of it. This is Jason Smith and he he took a CODEL to Europe to tell tax authorities in Europe, we're not doing this. So don't think that the U.S. is leading on this to basically undercut what Janet was doing or excuse me, Secretary Yellen was doing around the world. So I don't see that is not we have populism against big corporations. It's not in this area.

RAMPELL: Do you agree with with that forecast?

ORSZAG: Yes. I mean, I in the divided government scenario, I don't see any huge increase in either the minimum or the top corporate raider, any of that.

RAMPELL: I think you brought this up before Speaker Ryan about the child tax credit. I know this is sort of a hobbyhorse of mine. My guess is that there's interest among the audience about this question. Do you think there is an opportunity going forward for some sort of bipartisan version?

RYAN: I do. I do. So I'm I work next door, not at Carnegie It. Two doors down at AEI. And we put out a proposal, Angela Rasheed at writing her, and Scott Winship put out a proposal. I forgot exactly what we call it, but it's I'm looking at Kyle here. He's shoulder shrugging. Well, we proposed to merge the CTSI with the EIC and enhance it and have an enhanced family credit. Here's where I think the sweet spot on a cop on a compromise lies work. That's where the sweet spot lies on some kind of attachment to work. If if Democrats are willing to offer Republicans an attachment to work with an expanded CTC, I think you can get a deal done. I would love to just get rid of salt to pay for it. I think that's a great pay for. Think of the distribution tables. I think that's something this building would like to see. So I think there's a way to do it. I'm sure there are other papers, but I do think there is a compromise there. But it has to have work attachment to it to make it bipartisan.

RAMPELL: Do you have a view on the likelihood of that happening or if there is a version of work requirements that would be palatable to Democrats?

ORSZAG: I think it's challenging, as I'm sure Paul knows. But can I just make a two quick point on this one? I mean, this is repeating things that everyone in this room knows, but it's worth repeating anyway. I mean, the opportunity to reduce child poverty by 30% by reverting back to the version of the child tax credit that had been in place is a huge opportunity. That should not be taken lightly. Point one and point two is there is a big opportunity to reform the tax code more broadly. That has to do with any provision in the tax code that's aimed at some sort of externality. So whether it's the mortgage interest deduction or anything, that where you're trying to use the tax code to encourage something that you think is good for America, none of that should be in the form of a deduction or exclusion. It should all be in the form of a flat rate credit. And there is something that I think is more efficient, could raise revenue and more fair are a rarity among tax provisions and or tax reform. And the reason that it is, is more efficient is unless you think that the size of the social externality or the social benefit that you're generating is higher for high income people than for low and middle income people. It doesn't make it any any any sense to tie the per dollar subsidy to the marginal tax rate, which is what happens when you have a deduction exclusion. And for those of you who want to read more, there's a Stanford Law Review article that I coauthored from 2006 that lays that all out. But I that's that's an idea that I think is worth re injecting into the debate.

RYAN: I actually remember reading that the great thing about being out of Congress is, you know, I don't have to pass things.

ORSZAG: Right, welcome to Brookings.

RYAN: I could just. Yeah, exactly. I could be a think tank guy. Now, I agree with a lot of that, actually. I think the the most insidious exclusion is the health care exclusion. We're subsidizing the wrong people who were subsidizing to the employer sponsorship of health care. The person with the highest income tax bracket and where we're subsidizing the people who need it the most the least in the lowest income tax bracket makes no sense whatsoever to me. So I've always believed in getting rid of that exclusion, converting it to a flat credit. I think the long story short, I think tax reform is the way out of this. I can tell you the canyon we're going into here in this conversation, the way out of this box canyon is tax reform. And and I personally think Kyle and I at AEI have our own idea of what a good tax reform system looks like. My point is, I think you can get a higher revenue line without sacrificing economic growth, but you're not going to get the kind of distribution tables that I think this building wants. And if you can drop it, you drop that as a priority and focus on growth and revenue. I think you can get a decent tax reform system that that you could probably get some conservative buy in if and when it is brought together with entitlement reforms. If there is ever going to be a grand bargain, it's when we're running into this debt crisis. It's the GDP figures Bob was mentioning. This probably has to be a commission. I remember one of the best persons I ever knew in my public life from this building, Alice Rivlin. She and I authored a few of these provisions back in the Bowles-Simpson days. I think there are things like that that you can do there on the on the spending side and on entitlements that when combined with tax reform, can get you a higher revenue line as a percent of GDP without sacrificing growth and enhancing international competitiveness. So I think that's I think that's better fertile ground than playing the baseline game, the political game, the middle class game that this this discussion we just had. That's what that's how it's going to end. Just wait right with the way we said it. But if you kind of raise your gaze and expand the problem to a bigger reform agenda, I think that's I think that's a better time spent for political people to spend their time on.

RAMPELL: That question from the audience that sort of dovetails into that is, is there bipartisan consensus on any revenue raisers?

RYAN: I don't think so. I'm trying to know. I mean, there is extenders, you know, customs, user fees. You know, there are a lot of extenders. And that's something we are, you know, Ways and Means does on an annual basis, on a bipartisan basis. But that's just extending current law. So I can't think of anything, any new thing.

RAMPELL: OK. Another question: not raising taxes is obviously politically popular, but what? Yes, not raising taxes, obviously politically popular. But what could change that Social Security trust fund, some political measure of the deficit markets? I would add on the markets point, you know, the ten year is now at four and a half percent. Like it seems like that should in theory pressure on Congress to do. Something. But what factors do you think could change the dynamic?

ORSZAG: I think those are the sorts of things. I mean, look, democracies tend to deal with crises, not with gradual long term problems. And so it requires some sort of forcing from something, whether it's I'll call it a somewhat artificial, but, you know, trust fund, exhaustion type of forcing event or financial market pressure.

RYAN: Yeah, in my mind it's if you can get on the spending side as well. So expanding the problem to to dealing with the entitlement issue in that context, I think you can get revenue raisers. Kent Conrad and I did the we cut the deal on the Bowles-Simpson Social Security provision, and it was I knew it was very important to him that revenues be a part of the mix. So we allowed some payroll tax increases in there, I think to the 90th percentile or something like that. And we did a few other things. We did. We had a new bend point, a bend point factor and did some, you know, means testing on the way we went, I think by opposing indexing plan and we did our agent adjustment for other age, we just reflected the longevity tables on an age on Social Security, but we put a payroll tax increase in there. There was a bargain. We agreed with that. And that's the kind of context where you I think you get this, you're not going to get our side, in my opinion, to say we're signing up for all these revenue increases and then down the road we'll deal with the spending side of it. I think you can get our side to sign up for revenue increases along the lines of what I just mentioned, the reform with concurrent entitlement program reforms that get your debt under control.

RAMPELL: So one more basic question that maybe I should have started with is what do we mean when we say reform? Like, what are the actual goals? I know you've talked before about targeting growth. We have a paper later today, I believe, Right. Maybe right after this session showing that previous attempts at reform, overhaul, whatever vernacular you want to use, have not had much of an effect on growth, but they have had bit of big effects on revenues, incentives, distributional consequences. Why not target those kinds of things, which it seems like in the past we have inadvertently done anyway?

RYAN: Yeah, in my mind. So I'm I'm a fan of what Carl and Alex, Kyle and Alex did over it at AEI. We helped build this together. I think we should convert to a destination based cash flow tax. I think you can get to a higher revenue line without sacrificing growth there. And frankly, I'm not a fan of the IRA. I think it was bad policy. I'm not a big fan of industrial policy like that. I would just do a carbon tax, just do a border adjustment, carbon tax on top. It's very concurrent. It works well with the border, it with a destination based cash flow tax and you can get higher revenues for that. And I think that's better policy, it's better carbon policy, it's better trade policy, is better tax policy than the kind of mercantilist path we're going down. And so I think that's a better way to get it. Higher revenue line, address some social goods that you want to address. Inside of that, you can have the cutesy thing like we just discussed with the EIC. That to me is a better, better place to be. But you have to do that in my mind, along with the time to be in the same bill. But along with the kind of entitlement reforms that help bend that curve to dodge this debt boat, otherwise you're taking the one and only chance of getting higher revenues and and frittering it away. If you don't get the spending line under control.

ORSZAG: Two, two points really quickly. First, for those of you who have not seen the $3.9 trillion curve bending on Medicare, it's worth taking a look at the different trend after 2010 and before, because it's really astonishing. There's a lot more that we can do. Second, it's easy to say carbon pricing. I wholeheartedly agree with it. I would just add that in addition to being a source of revenue, if you were evaluating the tail risk associated with the fiscal dynamic and the tail risk associated with climate, they're not even close in my mind because the climate risk involves nonlinear eddies and physical systems that you just can't undo the fiscal risk at least. It might be hard, but you can intervene massively at the moment, so we're not going to do it, but it is clearly the right thing to do.

RAMPELL: Yes. So my question, my follow up question on that is on the last part. We're not going to do it. I see a lot of people nodding along with the the idea of a carbon tax. It's an idea that lots of policy wonks, economists, others love. I'm a fan. I've written about it many times. The Treasury secretary has herself signed a petition essentially in favor of a carbon tax. So has at least one member of the CTA. Is there any universe in which you could imagine this happening, like with this step? Nothing of this administration not proposing it. It seems to me like it's --

RYAN: This is the great thing about being a think tank. I don't have to say this can get done. I can just say what I think.

RAMPELL: I mean. Well, it's a question for people who are have served with both parties, I think.

RYAN: I think you skate to where the puck could be and you got to get the puck there. I'm from Wisconsin. We speak in hockey analogies. You're not going to get it. So the answer is no, not under the current conceivable political framework we have right in front of us, but perhaps in the not too distant future. This is possible. I think it actually is. I never liked commissions, even though I served on a few of these things. I always thought it was Congress punting to somebody else, not doing its job. But I think the state of our political system these days is probably the inevitable place to go commissions. And I think if you have statutory commissions, which are fast track commissions that cannot be filibustered, they have to be voted on. I think you can get to something like this under that kind of a structure. And I think that is, in the medium term, a viable proposition. If you if you set yourself up for political success and start laying the seeds and the predicate for doing so, I think that's valuable.

ORSZAG: What I would say, look, and whether it's a carbon tax or cap and trade with some auction permits or attaching a price to carbon is the is the is one of the key things we need to do. I don't want to I have a slightly different view of many of the IRA provisions than Paul probably does on this front, but I don't think we get there unless and until the threats from climate change become even more salient. And that is the political calculus shifts because people are starting to see, Oh, that was really hot or oh, there are way more extreme storms. But as it grows, that will shift the political calculus. And before that, I think this is think tank talk.

RYAN: Yeah, I was making a carbon point me conceding the point, which is I think it's good to decarbonize. I agree with that. I was making more political point, which is if if the left and Democrats want Republicans to participate in this exercise and we are in a pretty 5050 country, then our price of of of participation is a better tax system, is a carbon policy that is market based and market driven, not running subsidies through Washington. And I would strongly argue that I would think you'd agree that sending signals on carbon through the tax code is is going to deliver better results than sending tax credits to this town. And if you want to get something done in this area, it's got to be bipartisan. And if you want it to be bipartisan, then it's got to be something that's done in a pro-growth way. And this is my opinion on what would be a pro-growth way of doing it.

RAMPELL: Do you think that there's any hope of support within your party?

RYAN: Yeah, there are. It's coming.

RAMPELL: I just remember everybody screaming bloody murder about tax -- gas prices,

RYAN: I mean, right now people running for president are going to do this. If you're running for president right now, you're not going to do this. But I think I think there is there is gelling support in Congress, in Congress for what I just described.

RAMPELL: What I was gonna say. I remember people in your party screaming bloody murder about gas prices getting so high last year. So it's very hard for me to imagine.

RYAN: Try being in a parade in Wisconsin on the 4th of July. That's all people talk about. So, yes, I think to Peter's point, when when people begin to think about climate issues, when they begin to think about the carbon issue, and you combine this with pro-growth tax reform so that the net result is better fiscal policy and you're not sacrificing economic growth, I think you can get there. That's my opinion. Now, that's most people who are Hill watchers think that's paying this guy. I don't think you get big things done unless you start thinking like that and start moving toward it. And I would tell you, there are members of Congress, we have entertainers in Congress and we have legislators in Congress. Well, the legislators in Congress think like the way I'm just describing the entertainers are who you just described who aren't going to do that.

RAMPELL: Another question from the audience is the problem the ten year window or not when thinking about goals of reform?

ORSZAG: I think the ten year window contributed to the sunset issue, but I don't actually think it's fundamentally the impediment to --

RYAN: What's the alternative?

ORSZAG: And what's the alternative.

RAMPELL: I mean, you could have a 20-year window.

RYAN: Sure, or five year window.

RAMPELL: Should 1986 be the model for individual income tax reform?

RYAN: I think. I guess I don't. I don't know who you're asking. I think you can get a higher line. I think you can get a higher revenue line without sacrificing growth. Again, I just go back to my earlier answer. But but what I would not want to do is give up all that revenue without getting some some some some control of your entitlements under control. But I do believe you can get up. I like to think you can we can have a better tax system than the one we have today without hurting GDP growth. Frankly, I'm very worried about it. Look, CBO is telling us we're going to grow at 1.3% for the next 30 years. That's mostly a labor point. But so I'd like to do some things that can get that line up. And what I don't want to do is grab tax policy that's going to lower that line. So if we can get tax reform, entitlement reform and immigration reform, that that combination could be could be a pretty damn good thing for growth for this country. We have terrible politics that prevent that from happening right now. But all three of those issues are going to break. That's the way I've seen in my 25 years on the Hill. 20 as a member of five as a staffer. Tell me issues break and and they seem intractable until that happens and these issues are going to break. I don't know exactly when, but they're going to break, you know, and they're not in the medium term. I think they're going to break. And when I mean break is they're going to get to such a point that we just have to do something about it. And that does happen. I think that's going to happen in immigration. I think it's definitely going to happen on entitlements because of the trust funds. And I think it can happen on the tax, on tax reform and on carbon.

RAMPELL: I think we are about at time for this panel. But afterwards, I just wanted to give you the last word on either on Speaker Ryan's point or anything else that you anticipate breaking or being fixed.

ORSZAG: Look, as they say, the Overton Window shifts and, you know, this will this will change. I think the work of the Hamilton Project Brookings AEI is to prepare for that moment. It's not right now, but it's good that you're having sessions like this so that we're prepared for when that window shifts.

RAMPELL: Actually, I was told we can do one more question. So I'm scrambling just to prioritize. Let's see. Here's one we haven't touched on. Do you agree? Either of you, both of you, that the retirement deferral should also be turned into a flat credit?

RYAN: Say it again?

RAMPELL: That retirement deferral should be turned into a flat creditor.

ORSZAG: Retirement deferral. Well, there are lots of different retirement deferrals. There's the deferred credit under Social Security. There's a whole bunch of different provisions. Let me actually mention one thing, though, on this that I was speaking with Ben about, Ben Harris about earlier, which is I think there is a large agenda for how, as arguably morbidity improves along with life expectancy. These for part of the population to encourage longer work lives. And there are a whole variety of things that we could do if we're not really going to do all the immigration stuff that people in this building and elsewhere often talk about. I think there's another pathway for encouraging longer work lives among people who are not in physically demanding jobs that we could facilitate. And there are lots of impediments that push in the other direction. So I didn't answer the specific question because I didn't fully understand it. But there's a broader there's a broader agenda here that has to do with removing impediments to early retirement.

RAMPELL: Do you have thoughts on that?

RYAN: What he said.

RAMPELL: Fair enough. Yeah, I will add that as we talk about reform, reform is again in the eye of the beholder. Reform is is a generic term that means things will be better. But what one party believes or even one faction of one party believes makes the tax code better or the immigration system better or any of the other things you talk about.

RYAN: No, no. Every Republican agrees with everything I just said. What do you mean? I speak on behalf of all of them.

ORSZAG: If only.

RAMPELL: Well, thank you so much for your great questions. And thank you so much.

RYAN: Thank you. Thank you.

EDELBERG: All right. We are going to roll right into our next panel. But before we do that, first, let me say thank you to catherine for moderating a really excellent discussion between Peter Orszag and Paul Ryan. And I am particularly excited to be talking to Natasha Sarin, who was one of the coauthors of the Hamilton Project proposal with Kim Claussen trying to start the conversation, to jumpstart the conversation on tax reform in a useful place. So let's let me start with the most basic question. Why did you and Kim rank this? Well.

SARIN: First of all, I think I'll be here. And thanks to Wendy and the Hamilton team for working with us on this proposal over the course of the last several months, Kim and I, this has been a bit of a labor of love over the course of this year. And we came to this paper, having both spent the first two years of the Biden administration working at the Treasury Department, where we had the opportunity to be part of tax policy conversations that were immensely exciting because tax reform happened while we were in the Biden administration. And there were a lot of successes, many of which were tax related. So one that is near and dear to my heart. We came up with a way to provide a long stream of mandatory funding to the IRS to meaningfully improve taxpayer service, but also to invest in high end taxpayer compliance. But we didn't just improve on dimensions of tax administration, of course. We also came up with new tax revenue from things like a new tax on stock buybacks. So a lot was done and it struck us that there were real successes, but it also struck us that there was a lot left to do. And that's kind of the origin story for this paper and why we think it's especially exciting to be writing this paper now is, as the last panel was, having the conversation. 2025 is going to be a giant moment for tax reform in that the tax code is going to change and members of both parties have already committed to reopening the code to extend at least some portion of the expiring provisions of the Tax Cuts and Jobs Act. And what that means is we have a real opportunity to think seriously about other reforms that can help address large and rising deficits and also meet really important spending needs. And so the tack that we take in this paper is we kind of pick a number. The number there's no magic to the number. We pick three and a half trillion dollars of revenue raisers, net revenue raisers. And we present a pathway to potentially get there a menu of reform options that we think policymakers should seriously consider. Of course, we would be thrilled to see a subset of these reforms enacted. We would be thrilled to see even more ambition than what we put in the paper. But I think as a starting point and I was kind of it's kind of I was optimistic hearing Speaker Ryan and Dr. Orszag in the last panel as a starting point. I think policymakers should commit to at least paying for whatever it is that they choose to do. But given the fiscal needs that this country faces, ambitions should be much, much loftier. And we kind of outline a pathway to get there that is important, not just because of deficits are rising and we're on a fiscally unsustainable path. Of course, all of that is true. It's also important because as the last panel touched on, there are real spending needs that this country faces that we should be able to devote devote revenues to. So the fact that we left 5 million children, the child tax credit came up in the last panel. 5 million children fall back into poverty last year because of we rolled back of expanded and fully refundable child tax credit. That's a policy choice and it's an illogical policy choice given how much low hanging fruit there is with respect to potential revenue raising to pay for those types of investments. And that's really the argument that we're trying to make in the paper.

EDELBERG: I am delighted that you came out of the last session more optimistic.

SARIN: I'm a perennial optimist. What can I say?

EDELBERG: I mean, maybe I started at a different place and became more pessimistic. I'll also say with regard to the child tax credit, not only can you find Natasha income's proposal on the Hamilton Project's website, you can also find a proposal that I coauthored with Melissa Kearney on ways to extend the child tax credit and make it partially refundable. And that wouldn't cost a lot of money and would get many of those millions of children back out of poverty. All right. So I want to ask. What's in your proposal? But I want you to start with, because you mentioned the three and a half trillion number. And what's going to be confusing for all of us over the next couple of years when we talk about it, whether or not a proposal that's being discussed is like a revenue raiser, revenue lower or it's nothing. And what your point of comparison is. So I want you to tell me what your point of comparison is and then tell me how your proposal raises the three and a half trillion.

SARIN: Yeah, okay. So where we start is we say we start at current law as our baseline. And we say that if you decide to extend some portion of what's expiring with respect to the Tax Cuts and Jobs Act and you do other things and I'll talk through the other things, you have the potential to raise about three and a half trillion dollars on net over the course of the next decade, which, as Jason was pointing out earlier, at least when we wrote this paper, that number was significant enough to cut primary deficits in half over the course of the next decade. The the proposal, though, and like a lot of the proposal, is motivated around these questions of like fiscal need and trying to raise revenue. The proposal is about much more than just raising revenue. And we view what we advocate for in the piece is not just about the number of dollars it can raise to address the deficit or meet spending needs. A lot of what we propose is about sort of improving the efficiency of the tax system. Again, much of what came up in the last panel and also addressing inequities in some of the distributional aspects that we think are important. And I'll just give you a couple of examples. The paper is replete with many, many different tax policy proposals. But I'll give you a couple of examples --

EDELBERG: And an excellent summary. And a high level table, don't be afraid.

SARIN: Yes, exactly, excellent summary that Wendy and her team helped put together. I'll give you a couple of examples, though, to illustrate why I think these proposals are great. Let's start with capital income. So today, with respect to capital taxation, over the course of the last several decades, we've been in a situation where the capital share of tax revenue has fallen and the labor share has risen. We're also in a situation where the top 1% of the wealth distribution holds 40% of their marketable wealth in untaxed capital gains. So it strikes us that we need some approach to capital. What the proposal advocates is it advocates sort of low hanging fruit things. So with respect to raising capital gains tax rates and also carrying over basis and Y carrying over basis is really important, is not just there is revenue at stake here right now because capital is such that you can have untaxed capital gains that go to your air and the basis just doesn't the basis automatically adjusts such that those gains are never taxed. That prevents capital from being deployed to its highest and best use in ways that are ultimately inefficient because there's an incentive just to give your capital to your air or a capital asset to your air, as opposed to trying to sell it to someone who can make better use of it in the future. So that inefficiency is one we can address, and it's one that we address with our with respect to our proposal. There are dials here, right? So dials with respect to things like constructive realization at death or the mark to market of capital gains, which Danny Hagan, who's here and others have advocated for. All of these things are things policymakers should give serious consideration to in the future. But there's real potential here to increase the efficiency of the tax system. There's also real potential. And I know Kim is going to talk more about this, and I'm sure she was thrilled to hear so much discussion of carbon taxes in the last panel. But there's real potential over the course of the next several years to think seriously about tax reform as a tool by which we preserve American leadership in the world. And we offer two examples of this as sort of a motivating principle for us in our paper. One, of course, is with respect to climate, where the US simply can't go it alone relative to where our allies are and where there has to be some form of global coordination with respect to policies going forward. Another is with respect to international taxation. And again, Kim and I were thrilled to be at the Treasury Department when the Secretary very successfully negotiated an agreement with respect to 95% of the world's GDP to set a minimum tax rate on multinational income, where no matter where it is blocked. Unfortunately, Congress chose not to enact that legislation that would actually implement against that agreement. And what that means is it means that it doesn't mean that the rest of the world has stopped. It means that the rest of the world is going on without us, in that the UK, the EU, Canada, South Korea, Japan are all implementing against the international tax deal such that multinationals will face minimum tax rates. It's just that that income, that revenue won't come to the U.S.. Did states. And that strikes us as a mistake and one policymakers can use the 2025 moment to actually seek to correct.

EDELBERG: Wait. So I want to I want you to drive that home that that point on a little bit more. When when that revenue doesn't go to the U.S. can just take it, take it the one step further. Where does the revenue go?

SARIN: So the way that the international tax deal was negotiated is we have a problem with respect to multinationals. That's why multinationals today face tax rates that are at the same level as middle income Americans in this country. Right. The problem is that unlike domestic corporations or unlike the people in this audience, what multinationals can do is they can take their income and just decide to book it in the place that offers them the best tax rate. And so what the international tax deal was about was it was about coming together and setting a floor with respect to the world on how we are going to be able to tax multinationals going forward and at what rate. And that floor was set at 15%. That was what was negotiated across 95% of the globe's the world's economy in order for that tax rate to have bite. What it requires is it requires that we be in a state where all of the those countries that decide to implement against this agreement have confidence that they can levy that minimum tax rate, even if other countries don't decide to implement against that agreement. So the way the agreement is structured, if the United States doesn't actually pass tax reform, that sets a 15% minimum rate on multinational income for U.S. multinationals. If those multinationals do business in France and France has actually legislated that tax agreement, what that means is that France can essentially levy a penalty on multinationals that operate in France and operate in the US because they're kind of using the US as a way to avoid paying that minimum tax rate. And so what that means is, rather than getting that income here in the United States, that revenue that's very needed for our deficits and also for our spending needs, it's going to go to other jurisdictions in a way that actually hurts us not just from a tax competitiveness perspective, but also from a revenue perspective.

EDELBERG: So I want to I want to come back to to the point that you mentioned about that your proposal has dials so well, like, I think the presence of the dials suggests to me that you're Cameron saying it's everything or nothing. So how do you when people take your tax reform proposal and run with it, how do you want them to think about the dials?

SARIN: Yeah. So to be clear, what we think of ourselves as operating in this paper is kind of a menu of options, and we would be thrilled to see some portion of this menu. We would be thrilled, thrilled to see other tax reform items that we don't consider in this set of proposals to be actually what is legislated out into the world. The way that we think about the dials, some of the dials are kind of obvious in that depending on whatever revenue targets legislators ultimately adopt, they can turn up and turn down, particularly some of these rates. Right? So we suggest a five percentage point increase in the long term capital gains rate that can scale up or down. We suggest a 3%, three basis point financial transactions tax. A Hamilton policy proposal from 2020 by Antonio Weiss and Laura Kawano had a rate that was more than three times that which would raise substantially more revenue. But I think other of the dials are also sort of worth mentioning and worth highlighting in that one of the things that came up in the last panel was that a very significant chunk of the Tcja extension. So the aggregate cost, depending on the budget window you use, which is very important for these numbers, but like the aggregate cost of extending all TCJA expiring provisions is somewhere around $3 trillion or over $3 trillion depending on what year you use. About 1.8 trillion of that three is just the cost of extending the individual rate, individual top rate, not just individual top rate sorry, individual rate cuts. We suggest that there are better uses of those funds than those extensions. However, policymakers may decide that they want to keep all but the top rate or all but the top two rate brackets at their lower levels.

EDELBERG: That was basically what was described in the previous session.

SARIN: And that is like -- and I was kind of again, kind of excited to hear it in that I think that those are spaces where there is actually real room for compromise and negotiation. And this is definitely not like a our way or the highway type of set of proposals that we're advocating. What we are kind of hoping to do, and it also came up in the last session, is expand the Overton Window and expand the appetite with respect to what are. Real revenue numbers that we can hopefully aspire to. And again, maybe I'm overly optimistic, but I think that's true not just in a world of unified government, but also in a world of divided government.

EDELBERG: So I think you have a friend in the audience who's written one of these questions, which I would I have to ask. How do you hold the line on IRS funding?

SARIN: What a question. And I should say, by the way, that as we were talking about inefficiencies in the tax code, I refrained. But now this question you have in me the opportunity to talk about what I think is like an extremely deep inefficiency, right? Because we don't just have a tax system that disproportionately taxes certain types of income. We have a tax system that actually fails to collect certain tax revenues from certain streams of income just because of the way that income accumulates. And so for like wage income compliance rates, wage income taxes on that is automatically withheld. Compliance rates are 99% for things like proprietorship income that are opaque to the IRS. They have no way to verify whether or not you're accurately filing your tax returns. Compliance rates are under 50%. And so there obviously is significant revenue here in that the IRS today is failing to collect 3% of GDP on an annualized basis. For reference, I's entire menu of proposals is raising about 1.5% of GDP. They're failing to collect 3% of GDP on an annualized basis. There is a ton of revenue here. That is why the investment that was made in the IRA in the IRS is so incredibly important. It is an investment that is already starting to pay off for taxpayers who are seeing an IRS that can finally answer the phone. And next filing season will see an IRS that's going to be able to help them prepare their tax returns, decreasing the time, and also the expense that they pay every year to fulfill their civic duty. And do you have an IRS that has the resources to invest in high end compliance, which we know has incredibly high returns? A recent paper by Benz from Kaiser and Will Boning and Nathan Hendren suggest that the returns on those types of activities are more than 12 to 1. So like, that seems great that we did that. The reason why this is in our proposal is because there's a lot of low hanging fruit with respect to the IRS as well, in part because what's happened since the Inflation Reduction Act was passed is that the IRS has seen a substantial portion of those new mandatory funds depleted by the fact that as part of the debt ceiling negotiation, about half of the enforcement money was rescinded. So how do we hold the line? I think we hold the line by making two arguments, both of which I think are quite straightforward to make. The first argument is that as a matter of like addressing deficits and providing revenue for new spending, it is hard to find a better policy than collect the taxes that are already owed. So like if you believe nothing else, if you believe no other tax increases should be legislated, you have to believe that we should be doing a better job on collecting what we are, collecting what is owed. The second way I think we hold the line and why I've been really sort of heartened to see what the IRS has done over the course of the last year since I left government is I think we hold the line by showing what good government actually means for the American people. And this is not just all the stuff on high end tax enforcement. It is actually like an IRS that functions like one that picks up the phones and one that can help people with tax preparation no matter which. And I wish Speaker Ryan was here to make this point for me. But both sides of the aisle, the number one call you get if you're a member of Congress from your constituents is like, where is my tax refund? Why isn't the IRS picking up the phone? Having an IRS that's able to do that and investing in that is popular and being able to show the American people that this kind of IRS is actually being able to deliver for them. I actually think is a winning message.

EDELBERG: Great. So I have I have 30 more seconds. So I'm going to take a moderator's prerogative to ask you an unanswerable question, which or a question that can't be answered in 30 seconds. So it's a question that relates to the essay that Ben Harris and I just put out on thinking about what the framework is, what the what the framework should be for successful tax reform, for debating it. And we compare how tax reform has done in actuality with regards to affecting the long term level of GDP relative to theoretical tax reform. And we have a long literature in economics telling us that theoretical tax reform can have very large effects on the economy, but in fact, the actual tax reform that we've put in place at least since 1986, has had pretty trivial effects on the long term economy. And so we talk about other things that. We should we should be thinking about like, you know, changing our relationship with, you know, our major international trading partners to tax reform and stuff like that. Okay. So why not then propose instead of your menu of options? Why not propose switching our system over to a consumption tax? Why not? Why not propose one of these theoretical tax reforms that we have? All of this all of this background that tells us would have a huge effect.

SARIN: You know, so Kim and I are far from the political prognosticators in this room, but there are many. So I hope you'll tell me whether or not you think that this is right or wrong, both in this session and after. What we tried to do was limit ourselves to what we thought were within the Overton Window, plus some. So in our minds, it's like Democrats have 55 seats in the Senate kind of reforms. That's not to say. And I was actually struck by the last panel where, like, you know, it seemed like they were kind of advocating for deep structural reforms that are like not just on the margins of changing the capital gains tax rate. That's not to say that a bunch of that won't be meaningful or impactful or in fact, that we wouldn't be in favor of many of those types of reforms. I will say one thing that struck me since you gave me the chance about your piece with Ben is one of my takeaways from the piece actually was that I don't know that GDP is like the singular most important variable for some of what Democrats want to accomplish. And the example that I like to give when I make this statement is I think that the child tax credit is like hugely impactful. The fact that it makes such a difference and we saw with respect to child poverty has long term effects. Whether or not we decide to quantify them in the official scorekeeping process or not. And distributional is so meaningful because it is targeted. It is exactly those families who you most want to help. And so my takeaway from your paper is not just let's think about different types of tax reforms. My takeaway from your paper in some sense is that the variable set that we all analyze these reforms with is not necessarily the most holistic or correct variable set to be handed to policymakers. And that's something I think that we need to all sort of work on and work through together and think through deeply.

EDELBERG: All right. Well, thank you very much, Natasha. Please join me in thanking Natasha and we'll move into our next panel.

HARRIS: Okay, let's just jump right in. We have a terrific panel here today. My name is Ben Harris. I'm the vice president and director of economic studies here at Brookings. We have Kim Clausing. Kim holds the Eric Zolt chair in tax law and policy at the UCLA School of Law. During the Biden administration, Kim was the deputy assistant secretary for tax analysis. We also have Kyle Pomerleau. Kyle is a senior fellow at the American Enterprise Institute where he studies federal tax policy. Before joining AEI, Kyle was chief economist and vice president of economic analysis at the Tax Foundation. And we have Nirupama Rao. Nirupama is the Stanford Robertson assistant professor of business administration at the Ross School of Business at the University of Michigan. And she was also formerly with the Council of Economic Advisors, where she was a senior economist. Just a quick reminder that we have staff who are collecting questions should you want to submit one? And so we'll take a few minutes to ask questions and then we'll turn it over to the audience. So, Kim, let's just start with big picture. This is similar to the question that Wendy asked, and it's easier but slightly different. So when you guys wrote this paper, what were the the sort of the guiding principles, you know, before you got down into the details, what was the big picture guiding principles that you wanted to achieve with this proposal?

CLAUSING: Thanks so much, Ben. And thanks to Brookings for hosting and to Hamilton for all of the work that went into this event and to the production of our paper. So the paper really is based around four key principles, some of which have already been touched on at some length. So I'll be quick with some of them, but I want to give kind of examples of each. So the first is revenue adequacy. If any of you aren't convinced yet that deficits are a big problem, you should take a look at this at the CBO publications, both short term and long term of deficit and debt forecasts. But right now, we're in a period of rising interest rates, demographic pressures and assumptions that may or may not prove too optimistic regarding the path of future law. So we feel strongly that it's time to make a dent in the deficit. And since we're tax people, we're focusing on the tax side. That doesn't mean there aren't things to be done on the spending side, too. So the example from our proposal, I think, is in the in the Tax Cuts and Jobs Act extension area, we focus on a revenue neutral version of extending that, whereas I think both parties in Congress are probably more interested in a revenue losing version. With respect to income inequality, we are very focused on progressive reforms, but not only focused on raising taxes for those in the top one or 2%. I think examples from our proposal are expanding the child tax credit, which in Tosha spoke very persuasively about the importance of expanding the earned income tax credit for childless workers, expanding premium tax credits. Those all help support those at the bottom of the distribution and asking more from those at the top and the underlying principle behind doing both of those things. I mean, both Natasha and I are economists and there are efficient ways and there are inefficient ways to address income inequality. And I think the tax code is the most direct, most efficient way to get at this. I think if we tried to do this through rearguard attempts to hold back technological change or international trade, we're actually going to kind of shoot ourselves in the foot. And the tax code is a much better way to do that. A third principle is efficiency. And I can give four very quick examples. They're coming from the paper. The first is tax compliance, which Natasha already spoke persuasively about, But collecting the tax that is due makes good sense before you start raising rates. Second is there's a lot of tilts in the playing field in our current code that favor one type of income relative to another, including capital income as is tax preferred relative to labor income and foreign multinational income is tax preferred relative to domestic. I often refer to the current law. Gilti is a kind of America last tax policy because any foreign country is a better place to earn the income than earning it in the United States. So correcting some of those tilts can make for a more efficient code. Third, I think it's important to recognize that the corporate tax that we have today is it mostly a tax on the normal return to capital. It's it's following on the supernormal excess return to capital. To a large extent, you know, estimates range from 70% to 95% of this tax base. So that means that corporate tax raisers, like the ones we contemplate in our package, are actually not just tools of progressivity and revenue, but tools of a more efficient tax system. And finally, of course, I'm. A huge fan of Peruvian taxation, a fancy word for taxing things we don't like. And carbon dioxide is something that we have too much of. And I was very heartened indeed to hear that some bipartisan support for moving in that direction. I do think. Overton Windows can shift quickly, particularly when the sky is orange. And there are other salient factors, even here on the East Coast that caused people to notice this problem. So so I view that as very efficient. And then the final principle that I really am most excited about, in part because of the work that I've done in these two areas, is using the tax code as an opportunity to really address global collective action problems. It's very difficult for one nation alone to solve the problem of climate change. It's very difficult. It's impossible. It's very difficult for even big countries like the United States to tax their own multinational companies because of these profit shifting and offshoring incentives. We can make huge progress in both of those areas by better aligning U.S. tax policy with best practices of of what other countries are doing. So in the case of international tax, I think there's both a revenue positive way, but there's also ways to compromise with Republicans on this, but to move to align the US system with what all of these other countries are already adopting, and to use that as an opportunity to, you know, collect more from this pretty efficient tax base. And I think the international tax agreement is is would create ultimately a more certain and stable tax environment for companies at the same time that it lets us tackle this problem of tax competition. But in climate too, if we look at the United States, we are the only G7 country without a federal carbon pricing regime of some type and over half of the emissions are covered by some sort of carbon pricing regime if you exclude the United States. So we think this is an excellent time to sort of build on some of the emissions reductions that have been achieved or that will be achieved hopefully with the Inflation Reduction Act, but also to better align with what's happening in the European Union and the UK and Canada and elsewhere to use our collective power as large consumer markets to really encourage the entire world to do more emissions reductions through nondiscriminatory carbon border adjustment. And that's only possible if we're applying the same cost to our domestic firms through a carbon fee. So so I think those are all really important principles, and that's kind of what we've guided our our path forward here.

HARRIS: Well, super ambitious and tackling tons of questions and problems. And thank you for that. Okay. So Kyle, can you help us zoom in a bit more? And so specifically, can you compare two states, the world, So one state of the world where we have committed to this proposal has been enacted down to the letter by Congress versus another scenario where we have TCJA extended. And so what are the key differences between these two different states?

POMERLEAU: Sure. So first, thanks for inviting me to talk. Also, congratulations on the paper. This stuff is a lot of work. I also think it's very important to put forth ideas to make TCJA extension fiscally sustainable, given our challenges. And I also think it's important to highlight that, you know, reforming the tax code was not finished in 2017. We still need to do a lot more, and this is the beginning of that conversation. So I think that there are a bunch of obvious differences between tax just extending the Tax Cuts and Jobs Act wholesale. And this proposal, I mean, the most obvious one is, is revenue. And I think that that is mostly dealt with on the individual side provisions. Their proposal takes some of the base broadening the itemized deduction provisions, specifically uses that to pay for slimming down the alternative minimum tax. And that and I think that on net they believe that they can get something that's revenue neutral, whereas full extension of the individual provisions would not be revenue neutral. That would lose a boatload of revenue each and every year. But I also want to focus on a couple of major categories of of of issues related to business taxation that I think are different in some ways and the same in some ways. So the first category is the debate or the issue of what should the business tax in the United States be. So in the House, GOP put forth their initial proposal in 2016. They argued that the tax code should move from a more traditional income tax base where capital assets are depreciated over time. Businesses get deduction for interest expense, but no deduction for dividends paid to shareholders to a more consumption based tax where capital assets are fully. Hands in the bin immediately. But companies get no deduction for interest expense or dividends. Their argument is that would be more neutral across asset types, more neutral across financing forms, but also it would eliminate the disincentive for new investment under the business tax. Kim and Natasha's proposal kind of head in that direction, but also don't they don't. So they would get rid of amortization of R&D expenses, but they would also allow bonus depreciation to fully phase out. A bit of an inconsistency, but you could defend that inconsistency by arguing that R&D has important spillover effects and it should have a lower effective tax rate. But they also keep the limitation on interest deductibility that was passed as part of the Tax Cuts and Jobs Act as well. Again, you could defend that by saying that that's important protection to the US tax base in the international regime. But it does come combined with the higher rate in their proposal of 28%, does increase distortion somewhat across assets and makes the cost of capital higher. A second difference, or the second area where there's some differences and some similarities is international tax reform. And the Tax Cuts and Jobs Act did a lot to improve the competitiveness or improve the tax treatment of multinational corporations in the United States, lowering the statutory tax rate to 21%, going to a quasi territorial tax system where some foreign profits are either not taxed at all or taxed immediately to get rid of that lock out effect that existed under previous law. And Kim's proposals, they can build upon the minimum taxes that were passed as part of the Tax Cuts and Jobs Act. Now, maybe talk about this. I, I think that her proposals go a little too far and actually they would comply with pillar two, but I wouldn't say they are pillar two. They're quite a bit different in some important ways. And then the last piece is an issue that was brought up by Paul Ryan, which is the issue of entity choice or how to tax different businesses of different legal forms. This was an important part of the Tax Cuts and Jobs Act in the United States. There are two significant business forms traditional C corporations that are taxed under the corporate tax and what are called pass through businesses, pass through businesses. Their income is passed through to their owners and taxed on the individual form. And they're not a small part of the US economy. About 50% of net business income is passed through business income and there are big political constituency and really pressured Congress in terms of what they should do with tax law. Now I think the GOP aired and how they they went about this. I think Section 199 Cap Bay actually made things less neutral when added to the Tax Cuts and Jobs Act. Now, Kim and Natasha would let that go away. That's great. But on the other hand, they do also increase taxes on the corporate form overall by both raising the statutory rate on corporations and the dividend and capital gains tax rate. I did a little math and if they had just raised the corporate rate and not touched dividends and capital gains, there would be roughly rate parity between pass through businesses and corporations under their plan. But that with that, I'll stop there. It's a lot. It's a long list of stuff. Pretty ambitious, but I think we'll get to get to more of it.

HARRIS: Thank you. Know, it's a helpful summary. Nirupama, so the expiration of the TCJA will obviously be this massive political issue. Are there aspects of the TCJA that you think that progressives might find appealing?

RAO: I mean, I remember when the TCJA was being debated, when it was passed, I remember being surprised that there were things in the bill I, as someone left of center, kind of liked and it was signed into law of all people by Donald Trump. So, you know, on one side there are the hundreds of billions of dollars of tax cuts for very, very high income people. But alongside that, I felt like the TCJA accomplished some things that when I was younger thought we'd never see. Like I remember being an undergraduate and learning about just how big tax expenditures were in the U.S. and that the home mortgage interest deduction was number two. And it didn't do a lot for us in terms of helping people buy their first homes. So any positive externality, we think that's associated with homeownership, debatable itself. It wasn't really adding to that. It's incredibly inequitable as a deduction. Right. I think Peter Orszag spoke to this earlier, but it benefited millions of middle class homeowners. And which politician was going to get up and kill that sacred cow? Donald Trump apparently was going to do it. Or House Republicans and congresspeople did it. And I remember thinking that was it was a big accomplishment that we could maybe start again. Think about a first time homebuyers tax credit instead. That limitation does a lot, I think, to sort of bring progressives back to a place where there's revenues that they can dedicate to causes and tax credits that they might actually like more other areas, You know, I think limiting the deductibility of corporate interest was an important move in the right direction. I think eventually we'd like the financing of investment to be more neutral between equity and debt, and I think that limitation did something important. I personally would like to see it go further. I'd love to see a world where we allow all investment to be expensed and there is no direct ability of corporate interest. I think that was another good piece and I think something from Kim in a tortious proposal that sort of echoes one of the one of the few strengths I will say of the today is that in some of its provisions, you got simplification. Like, I think Natasha and Kim did a really nice job of holding up how the salt limitation, the limitation on how much of your state and local taxes you can deduct payers with the increase in the AMT exemption to kind of just make the code easier. And I think there are pieces of that form as well that, you know, in a world in which you don't get to deduct your state and local taxes, maybe not at all. Speaker Ryan gets his way the. AM-T You know, raising that exemption or maybe eliminating the AMT might make people's taxes a little bit easier to calculate. So I think there were, there were quite a few things I would say that as a progressive I was heartened to see in the TCJA.

HARRIS: So let's talk about what we think the debate will look like in two years and not necessarily what it will look like politically, but potentially for people in this room or in in the tax and the tax community. What do you guys think this is to all three of you? What do you think will be the key issues? And this is enormously complicated. I asked him at the first question to summarize the key principles. And I mean, you did a terrific job, but it took you like 7 minutes to summarize the eight key principles. So there's a lot here. What, what are what are we most of -- we the tax community -- going to be arguing about in 2025? And this is to all three of you.

CLAUSING: I mean, I think one thing we'll be arguing about is whether to care about the responsible things. You know, like it seems like there's a strong inclination to extend a lot of these tax cuts. There's a strong inclination to avoid almost any painful spending cut. There's a lot of things the Democrats want to spend money on. You know, there's even more tax cuts that Republicans would like to do. So I think, you know, one of the questions is, will we get to one of these kind of breaking moments that Speaker Ryan talked about where it'll feel like maybe Moody's and Fitch downgrades will be part of this, Maybe it will be other things, but it will feel more important to take on the deficit. And then at that point, we're sort of talking about, you know, who who pays? Right. I do think corporate raisers and I was really struck by something that Congressman Ryan said. Corporate raisers are an area where, you know, there's room for more revenue and there's a reason they made them permanent because they were afraid they would go back up again. But I think that would be an area of compromise that would be politically supported by at least the voters across the spectrum. You know, I also think there is room for further compromise, and it kind of depends on the political outcome. But there's room for compromise around how to redesign corporate, but also how to redesign some of our climate policy in a way that gets to the same objectives in a more cost effective way. I would point out that some of our things, like child poverty, I think that has a very broad bipartisan appeal to address, you know, child poverty through the child tax credit, the refund ability. Part of that does a lot of the work is really not very expensive. So there's some things that would just be unconscionable for us not to agree on. And, you know, like if we're going to have a new tax pledge that's not like this or that, I would be like, let's at least do that. Everyone, you know, because that seems like such an obvious low hanging fruit.

POMERLEAU: You know, I mean, overall, I think the debates are going to be very similar to tax debates as they were over the last couple of years. And one of them already covered revenue. I think there's going to be a debate on whether this should be revenue neutral or revenue losing. I think realistically, our starting point is that it is probably going to be a revenue losing. I think that progressivity is going to be central to the debate. I like it. Even Republicans, when putting together the 2017 tax law, they needed to consider how different income groups are going. We're going to be affected. I think of the structure of the tax or the debate over the Tax Cuts and Jobs Act as a trade off across three different dimensions here where the GOP, they care about economic growth. They care about the distribution of the tax burden. And then you presumably care about revenue. You can really only take you can really only pick two of those things. And the GOP picked, you know, potentially growth and making sure everyone got a tax cut. So they do. So there is I think that will be continue to be central to the debate. What that looks like ultimately will depend on who is in Congress, who is in the White House. And then there will be you a policy areas will where lawmakers will debate. And I've covered a bunch of them already, Kim covered child tax credit I think will be central to this. Statutory tax rates will be central to the debate. So it's it'll be it'll be complex, to say the least.

HARRIS: Nirupama, your thoughts?

RAO: Sure. I think there are things that there will be agreement on, Right. I think bringing back full expensing to the research and experimentation credit will be uncontroversial. Like when I first started starting the R&D tax credit, I remember thinking that there's nothing sort of more wholesome and appealing to everyone than like apple pie, motherhood and the R&D tax credit. Right. It ranks right up there. So I think bringing that back, maybe even making that simplified credit, the main credit, I think those are things there could be agreement on. I think among tax experts, there is wide agreement that the carried interest loophole should be closed. Right. I don't think the reasoning behind that is revenue. We all know it's a small amount of revenue. It's that the optics are painful, right. That it's hard to keep justifying that loophole and that tax rate for that group of people, given where they're on the income distribution when so many people pay higher marginal rates. So I think those two those two things are areas, you know, getting rid of opportunities on credit that seem pointless, those kinds of things. I think there's widespread agreement on. I think there could be an interesting debate among, as I like to think of them tax burps tax experts about something that's in Natasha and Kim's proposal which is raising the capital gains rate. I think there's been a sort of consensus in Washington and in think tanks and places like that. But 30% was really the revenue maximizing rate that while it might be sort of politically appealing for some people to suggest a higher rate, that there wasn't a lot of revenue to be had there. But I think when we start opening up the debate about, you know, stepping up basis and maybe reducing lock in and potentially new estimates coming out of, you know, opens the door, has some interesting work. There's other estimates that suggest that the revenue maximizing rate could be north of 30% could go up to 40%. I think that's another interesting debate that might be present in 2025.

HARRIS: Interesting. So we can turn to your questions in a second. I'm going to ask a question as the moderator. It's a totally loaded question and I'm fine with that. So Natasha mentioned at the outset, she talked about tax administration. And if you say 3% of GDP in uncollected taxes each year, it's my view that the discussion around uncollected taxes and tax administration has centered around progressivity and is centered on revenue, but it hasn't centered around efficiency, which is something that Kim mentioned. If I was a staffer on the Hill and I said, look, I have this great idea, let's give a subsidy equal to 3% of GDP each year and base it on people's willingness to break the law, you'd be laughed out of the room. This is insane. Why is efficiency in a tax administration -- fairness, competition among different businesses -- why is that not more central? Why are businesses who do pay their tax bill not more pissed off that others aren't? And why isn't competition a bigger part of this debate rather than progressivity and revenue?

CLAUSING: I mean, I think competition should be a much larger part of this debate. There's an enormous tilt in the playing field towards people with opaque sources of income that can hide those from the tax man, and that makes certain sectors of the economy larger than they should be and other sectors smaller than they should be. And you can see that in other areas to the competitive playing field isn't fair between small business and big business because big business has more opportunities to get these discounted rates by moving income offshore than small business does. And this is occurring in an environment where our economy is not the sort of competitive paradigm paradigm that Adam Smith envisioned when he talks about, you know, a well-functioning capitalist economy. It's and it's an economy that is is really strikingly much. More monopolistic than it was even when you and I were were born. But certainly this is this is continuing even at present. So I think competition should be really at the heart of efficient tax policy.

POMERLEAU: So I agree there's competitiveness issues that you don't want your tax code to distort behavior that way. There's fairness issues across individual taxpayers, businesses. I will just bring up one point, however, that the 3% number is how much we don't collect, but that's not the amount we could potentially collect. There are diminishing marginal returns to tax enforcement, so you're not going to get all of that, all of that money. So.

HARRIS: Okay. So let me turn to questions from the audience. So this one is to Kyle, but Nirupama and Kim, feel free to jump in. But Kyle, let me just ask you this first from a policy, so not political perspective, why should we care if pass throughs face a higher rate than C corps? Can't they just become C corps? Should we just get rid of pass through?

POMERLEAU: That's a good question. So so I think that there is reason to care that we don't want, again, base efficiency, we don't want our tax code to distort behavior. So we think about what would the decision be choosing an escort versus a C Corp. In the absence of any taxation, legal liability, the amount of shareholders, whether you're doing international business and those should drive your decisions, not your tax liability. So I do think it is important that we try to get some sort of horizontal neutrality across business forms so that that's true. So I don't I don't think it's I don't think it's wise to just push that issue aside and not care about it. Now in terms of what policies we should do. So kind of deviating from the question here. So I so Paul Ryan brought up a proposal that I had put forth. I actually proposed for large businesses. And I think Jay said you had proposed this a couple of years ago, that large businesses should all just be taxed the same as C corporations, that you really take away that sort of entity. The that the tax distortion for companies that are large. I don't think that it's possible under current law, you know, really thinking about it that you can get to neutrality given how complex business taxation is in the United States. So that's that's something to worth considering.

RAO: I completely agree. I think we have to think for a moment about why we have the two forms, why do we have parsers? And I think at its heart it was aimed at making tax compliance easy for the true small business owner. Right. The guy who owns the small restaurant, the woman who owns a bakery. I think that was the idea behind pass through pass through entities. But the idea that there are very, very large firms that are passed through this and trying to cater to their organizational form decisions by distorting the tax code, marginal tax rates on corporations, I think is a bit silly. I think it might make a lot more sense to just group them together by income.

POMERLEAU: Yeah. And indifferent to how you tax. Right. So maybe we think that the pass through business form is the ideal form of taxation of businesses. Okay, then choose that and have that be across the board rather than having these different tax liabilities by legal entity.

CLAUSING: Yeah. And I like the idea of sort of requiring the large ones to file a C Corp because the corporate tax is a tool in part of a regulatory behavior. If you want to encourage low income housing to do a low income housing credit, it works through that system. Right. So it's it's a I think, a compelling argument to sort of reduce those these distortions across organizational form. Just one little thing that I might add that I think is relevant when thinking about business versus individuals and how to reach capital income is, you know, it's a sort of underappreciated fact that the US government doesn't even try to tax most US equity income at the individual level, like businesses are first and often only a way to tax this income. Over 70% of it isn't reached at the individual level ever, because it's it's held in nontaxable accounts by nontaxable entities, by endowments and the like, and the 30% that is in taxable accounts. A lot of that is, you know, deferred indefinitely or a benefits from step up in basis of death under current law. So those are those are important things to keep in mind when thinking about how to reach, you know, the greater than 30% now closer to 40% of GDP, that is capital income.

POMERLEAU: I'll add one thing or just agree slightly with that. So I think just be cautious about lumping all nontaxable accounts together. There is a distinction in how traditional IRAs and Roth IRAs tax above normal returns are supernormal returns I would. To call those nontaxable. They are actually collecting revenue from owners of capital. And given that if supernormal returns are 70 to 90% of capital income and there is some taxation there, so I would adjust that number down. I'm not entirely sure what the shares are, but there is a distinction that we should make.

HARRIS: So this next question, it's it's a little vague, but I think it's good that it's vague. And so you can interpret it any way you like. So what would the U.S. need to do to align with its peers on tax policy?

CLAUSING: Well, you know, one really obvious thing that I think Rich Rubin has pinned on his Twitter page, I hate to call him out, but he says it's my lot in life to remind people that the U.S. is a low tax country. So I guess one question we might ask ourselves is, do we want to be like that lower government country? And if the answer is no, then that does imply that the first thing to do is raise more revenue. You know, like unless we want to be a country with less than 20% GDP, government spending, and that would be an extremely difficult thing to do. So I think raising more revenue is the first step towards being more like others. I've already mentioned what we can do in the in the corporate and the climate sphere is to better align with with what other countries are doing. You know, I think as much as I think it's possible that the person who asked that question is trying to get us to talk about that, I just don't know that that is even within the most expanded Overton

Window I can imagine. So so I think maybe our time up here is better spent on the things we can see from here.

POMERLEAU: I place it very close to the carbon tax. So in the Overton Window, so, you know, who knows?

CLAUSING: I think we got Paul Ryan to say that he wanted a carbon tax. Do you think he wants a VAT? Well, I mean, yeah.

POMERLEAU: Yes, of course. I think Paul Ryan in particular is a big fan of consumption taxes. I mean, the House GOP blueprint was a stealth value added tax. It was basically an excise tax, which is like, well.

CLAUSING: A destination-based cash flow tax, has, is, is a VAT plus a massive wage subsidy rate. It's not identical to a VAT. Yeah.

POMERLEAU: -- tax on the individual income tax. Now it deviates a little because it's taxing capital gains and dividends. But, you know, it's a it's an X tax plus a little extra on capital income.

HARRIS: Nirupama, do you want to jump in?

RAO: But actually, I have a question for you, Kim. So that something that Natasha mentioned and kind of related to the question asked by the audience member, will there be a moment, will this issue break when France or whichever European country first looks at the US and says, no, there's going to be a tax on income from this corporate, from this business? That's a US entity that operates in our country because you are taxed. Do you think that will break that issue where like people will start to see where the revenue is going somewhere that's not going to us?

CLAUSING: Yeah, no, I think that this is actually a place where I can imagine the business community helped pushing bipartisan compromise. If we end up in a situation with a divided Congress, in part because I think there are spaces where I can imagine a grand bargain here. So let's say we make gilti reform more like pillar to 15% country by country minimum tax that turns off all of these under tax profit rule taxes, which frankly aren't going to get a lot from our companies. They'll get some, but it's not going to be a ton. But it would sort of then subject our firms to a more uniform regime. There are a lot of things that companies want right now, including R&D expensing, but also they're their regular expensing, their changes to other rules. There's changes to the guilty and the high rate. And then there's this committee, this new corporate alternative minimum tax. So when you add up all those desiderata, right, it would be quite easy, I think, to sort of make trades in with that bundle of things and say, okay, we're also going to do pillar two consistent reform and that's going to turn off a lot of trade tensions. That's going to turn off a lot of bickering about who gets to tax, what, that's going to create more certainty going forward for the business community. So I can kind of imagine, you know, an outcome that looks sort of like that even with Republicans, But it would be led in part by the business community, bringing it to their attention that that's something that they wanted. And I think in a way, they've been hoist by their own petard in the sense that they fought so hard against this pillar two compliant thing that they then got the candy, you know, like and now they're facing, what, like five minimum taxes, the guilty, the beat, the you TPR, the county, you know, like it's a lot right. So I think simplification would also argue for them coming to the table on this one.

HARRIS: So you guys were talking a little bit about the DBCFT. Well, so we, we have two different years just compared to different years. You've got 2010 in which we had the expiration of extra after ten years, and I think a lot of the tax community were kind of looking forward to that as a moment where we could improve the tax code. We got to 2010 and we just kept it going for another two years versus 2017 when we actually were thinking about new types of of tax systems and we flirted with the DBCFT, which, by the way, much of the intellectual foundation for that, at least some of it, came from a 2010 Hamilton project paper written by Alan Auerbach. So Hamilton project papers can and are important. But so which year will 2026 or 2025 look like? Well, look more like 2017 when we're willing to blow up the tax code and have something new? Or will it look like 2010 when we just went with the status quo and extended it for a couple of years?

CLAUSING: I mean, I, I hope it's not status quo with extension for a couple of years. I don't know that blowing it up. You know, I would distinguish the DBCFT with what actually happened, the the Tax Cuts and Jobs Act. The DBCFT is a very nice intellectual idea coming out of this, but I think most tax experts thought it wasn't ready for prime time and quick legislation at the time. A lot of people don't even understand it. The exchange rate issue is really difficult to solve and there's no reason to think the theoretical expectation that the exchange rate just offsets these border adjustment taxes would really come to pass. And that and that a lot of the business community even took out ads against it, suggesting that, you know, they were concerned about how it would affect their import intensive businesses. So, you know, I do think there's a intellectual world where something like that makes sense, but I think it would take many more years of of, you know, grounding. So what we focus on in our proposal was really things that we could imagine legislating on a year because somebody already has something sort of like that in the desk drawer somewhere at Senate Finance or at House Ways and Means. And so it wouldn't take like figuring out whether exchange rates adjust to an entirely new regime. It wouldn't take designing something from scratch. It would be more, more ready.

POMERLEAU: I'd be careful about the criticisms of the DBCFT that way, because you could levy those against your border adjusted carbon tax as well. But I it's much better to mystically think that this might look a lot more like 2010 and it looks like 2017. But I think that, you know, at least in the think tank world, we will be putting forth papers in which we continue to argue that, you know, reform is not finished, tax code is not perfect, needs improvement in all sorts of ways.

RAO: I mean, I wouldn't bet against Congress kicking the can down the road. So, yeah.

CLAUSING: Sad about Congress. Yeah.

HARRIS: That's your quote of the day. So okay so so a lot of this is about prioritization. I in my view, I mean, we're we're sort of picking and choosing what's most important if we don't get just a pure extension. What's your one number one extension expiration new thing? What is the most important provision that you'd like to see in either preserved from the TCJA or introduced in 2026? When when we take a fresh look at this.

CLAUSING: All three of us?

HARRIS: All three of you.

RAO: Well, I know what mine is. It's not a TCJA provision. It's I mean, I think it's most of us in this room would agree that I think a CTC that's broad and refundable is just a priority as a country that tries to care about its children. I think reducing the poverty rate by 30%, the child poverty rate by 30% was one of the big accomplishments the last ten years of policy. And I would like to believe we live in a country that wouldn't stand for that disappearing.

POMERLEAU: I think that lawmakers, if they need to choose, should focus on the business tax reforms of the TCJA. I think the individual reforms, while they did make improvements here and there, in total they reduced revenue significantly. And given the current budget deficit, we should probably focus on things that probably have some pretty high returns in terms of efficiency for low cost and B bonus depreciation, limitations on interest expense, reversing amortization of IR&D. And I mean, it's also realistic that that, you know, those things actually happen and they're currently being debated in Congress, although who knows if anything's going to happen until 2025.

CLAUSING: I have such a hard time picking one. But I was struck by Peter Orszag's comment about tail risks and climate, You know, so I'm going to pick two. You know, I think that 2025 is a really important moment to work with other countries on these global collective action problems and both tax competition and climate, But obviously child tax credits so cheap to do the kinds of things that she wants. Like, you know, that if you want an inexpensive thing that's really great and easy, of course, you know, that's that's really useful, too.

HARRIS: So in in your paper, I think that you guys have a TPC distributional estimate that shows a fairly regressive So so the corporate tax is left out of this particular estimate, but it's fairly regressive. And if I'm remembering correctly, from the 95 to 90 ninth percentile, you get like 3% increase in after tax income and then around 0.5% for the lowest quintile. I think I'm characterizing that right. What is the right target for a distributional impact for the extension of this? You know what? What should that table look like if we got to if you get to choose?

CLAUSING: Yeah. I think given the recent trends in income inequality, it should. Looks like roughly the opposite of what that looks like. You know, I think we should be raising revenue disproportionately from those at the top. I don't think we can exempt everybody who's not in this very tiny tab from a tax increase. But we should ask less is as you go down the income distribution, it's a very hard thing to just answer with. Like I think the Gini coefficient should be exactly point blah blah blah. You know, but but it's clear from the polarization of our country that there's just an awful lot of people who feel left behind economically. And I think tax policy is a great way to try to push in the other direction.

POMERLEAU: And I think the answer is whatever passes, whatever can pass Congress. I think that if if Democrats are in control, there's going to be more weight placed on distributional tables. Republicans are in control, still some weight placed on distributional tables. They don't want to be accused of drastically raising taxes on the middle class, but it's still still going to matter. So I don't yeah, I think you're right that there's no one answer here. It's going to depend on politics. And one point I'll add to is that there's a lot of talk of increasing progressivity and addressing income inequality. You just want to state that tax code already is quite progressive. So so I think it's always just a matter of how progressive we want it to be. Do we want it to be more progressive? The current currently is or less so.

RAO: I mean, only when I think about the distributional impact of the tax code, I actually yeah, I think so. 100% true. Kennedy's view that we should ask less as we go further down the income distribution. But I just want to touch on a point that Natasha made. I think, you know, whether we cut the taxes of people who feel left out economically by two and a half percent or something, I don't think it's going to meaningfully move how they feel about their lives. But if I want to think of something that the tax code could do for them going back to and tortious that I actually think an IRS that functions better, that feels like government is actually something that you utilize, that someone picks up the phone and you have a question about how your deductions have changed. That to me would actually be a better version of the world and one that might be more meaningful to people who feel left out than, you know, an extra 80 bucks in their pockets or whatever.

HARRIS: So I'm going to read this -- thank you -- and read this question as written. And Kyle, maybe you could take this one first. Conservatives hold as a matter of faith that business taxation would turbocharge the economy. Is there any solid empirical evidence to support this claim?

POMERLEAU: So I think the answer is yes. But I'll caveat by saying that the GOP tends to overstate the its effects. And still today, lawmakers are arguing that the Tax Cuts and Jobs Act in 2017 paid for itself for increased revenue. Probably there was some there was growth that offset some, but it's the types of claims are implausible. You could point to a few papers that show that changes in the cost of capital, which is the cost of new investment, does impact aggregate investment. So there's one paper by Michael Devereux over in the United Kingdom that looked at accelerated depreciation among small firms in the U.K. and found that that a reduction in cost of capital permanently increased their level of investment. There are also papers here that show that accelerated depreciation increased or that reduced the cost of capital permanently increased investment. I think there is less evidence on the corporate rate and the reason for that being is, as Kim pointed out, one large share of corporations earn economic rents which are less sensitive to taxation. So you wouldn't see increased economic activity there in two. Traditionally, the corporate tax, when you cut it or increase it, there's two offsetting effects on the cost of capital. On one hand, you're cutting the tax on equity financed investment, but on the other you are reducing or you are increasing the cost of capital on debt financed investment. And depending on the industry and the business, you could see an either an increase or decrease in the cost of capital. So theoretically, it's more ambiguous, but I think it's less ambiguous for the policy that we seem to more agree on, which is cost recovery.

CLAUSING: And I would just point to one area of agreement here, I think, between Kyle and I and Jason Furman and others who studied this issue, is that as much as it kind of sounds like and tax reform, you always want to lower the rate and broaden the base in the corporate space. That's not entirely clear. That's the case, right? So I could imagine compromises around generous expensing limitations on interest in a higher rate that could simultaneously make the tax system more one on rents and. Are targeted, but also raise revenue. Right. And Jason has a really nice version of that in his 2020 Hamilton paper.

RAO: I mean, I think to the degree you think rents are concentrated in less capital intensive industries, I think in some sense a reform that pairs limiting interest deductibility with expensing. Right. And a lower rate, that's sort of an indirect way to sort of maybe try to target the rents more.

POMERLEAU: One at one point on the higher rate, though, is that when when we think about international profit shifting and the incentive to locate assets or profits overseas, we're also thinking about economic rents, that that's the type of income that's highly mobile. So raising the rate without simultaneously protecting the base through, say, a border adjustment makes, you know, makes it a more challenging task.

CLAUSING: And that's why the international agreement is so important, right? Because if you get the rest of the world up to 15, which thankfully they're doing without us, that makes it a lot easier for us to be at 21 than it was even to be at ten when they were at zero. So I think that's it's a really important thing to remember about the international tax agreement.

HARRIS: So we're living in a period of fairly active changes in tax policy. We have the TCJA. You know, as Nirupama noted, we have a two year experiment with the expanded CTC. We have the IRA, which is in many ways just the tax bill. What did what did tax economists or economist who focus on tax policy get wrong? If you want, be really bold, you can answer personally and say what something that you were wrong about. You've changed your mind given all of these different experiments with tax policy. I'll go first.

RAO: Okay.

HARRIS: So I will say, I mean, I was not always a fan of the child tax credit. And I thought, why would you subsidize kids? I mean, subsidize work. Subsidize -- but the anti-poverty impacts are undeniable. They are just and and I can I completely agree with you. I mean, we solved child -- we had a pandemic and we accidentally solved childhood poverty for two years. I'm overstating it a bit, but not that much. And it was wonderful. And the evidence is there. I've completely changed my mind on the child tax credit. I don't know if there's a similar thing that if --

RAO: I think I mean, this is not something we can declare victory on by any means. I think the work lies ahead. But I think I was skeptical maybe ten, 15 years ago about really moving to a territorial functional tax system. And given that the rest of the world had a framework and I understand that we don't seem super eager to join them yet, but to me this could be a really surprising and kind of awesome turn of events. If we could join the coalition and we could successfully have this kind of regime.

CLAUSING: Yeah, that's an interesting one because yeah, it's, it's a little bit residence based backstop to that. But yes, you know, it is it's a it's a really tough question because there's a lot of different areas I was thinking about. But I think my own views have changed most on the tax cuts and jobs, those benefits. There are parts of it that I like now that I didn't really focus on at the time, because at the time I was just like, There's all this stuff I don't like, You know, I was thinking about those. But when it came time to sort of think about what parts to keep, like, I was surprised how much I mean, I wasn't really surprised, but I was I was struck by how many of the structural features are really kind of nice. They're like, I really love the whole mortgage. Interest deduction just isn't a thing for most people, right? Like and that that has enormous benefits in terms of how we live like and what our urban communities look like if we're not putting such a big thumb on the scale in favor of large houses, far apart in the suburbs and, and debt finance, you know, like and so it does strike me that there's some really nice features of that. And having 10% of Americans itemize instead of 30 is is a step in the right direction. Yeah.

POMERLEAU: I'd say I actually moved in the opposite direction in terms of territorial taxation. I think prior to the tax debate I was a big fan of territorial taxation, but I think I've learned that there are limits to that type of tax policy. And, you know, and in an open economy in that we do need some sort of backstop. Now the question is what that backstop should be, what tradeoffs we should actually make regarding, say, complexity versus, you know, getting every last dollar of profit shifting. But, you know, I think that that that's something that I've moved on.

HARRIS: Okay. So last question. Just we don't want to end on the question. You know, how were you wrong? Okay. So really quickly, I just have one or 2 minutes. There's a lots of bipartisan discontent around the current tax treatment of business taxation. If you need votes from both parties. That's the composition of Congress. Is there a national cop? Is there a national compromise that would make both sides happier relative to current law?

CLAUSING: Yeah, I guess I spoke to this a little bit earlier, but but I think it would be something like big multinationals were going to turn off KMT and beat and you're going to just have a reformed guilty that turns off the entity powers abroad. And I realize that's a lot of acronyms for those of you who don't live in this space, but I don't want to take up too much of the time. Read the international section of the paper, which is very clear, I think. But, you know, I think that might even be roughly revenue neutral, but with line up nicely with with what the rest of the world is doing. And of course, if you need the revenue, you can crank it up a little bit from there. And I think we do need the revenue is what we've made quite clear.

POMERLEAU: Yeah, and I'd start at the same place that, you know, you could, you could imagine an agreement that gets rid of that particular minimum tax and enacts all or parts of pillar two. I think that right now Republicans are very skeptical of pillar two, but I think they need to come to realize that it's it's happening and that the US does need to act in some way. And what that looks like. Not sure. There's another piece too, that kind of pushes in that direction is that the taxes on foreign profits of multinational corporations are already scheduled to go up and become become harsher for for for businesses. So you could that's another thing that could bring both sides together.

HARRIS: Nirumpana, final word.

RAO: I mean, I agree with both of them. I think if you make a piece of the tax code ugly enough, messy enough, complicated enough, you could have the votes to to bring it back into into shape.

HARRIS: Please join me in thanking this great panel. Thank you.