THE BROOKINGS INSTITUTION

HOW DO WE GET TO TAX REFORM? LESSONS FROM THE BUSH PANEL

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Moderator:

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What We Learned:

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PROCEEDINGS

MR. BURMAN: Okay, we're going to try to do something very un-Washington, which is to start an event on time. I want to welcome you all to this event in which we will discover how we get to tax reform, which I can't wait to hear. I want to start with some thank-yous.

I want to thank Rosanne, who was the motive force behind this idea of commemorating the 10th anniversary of the Bush Tax Reform Plan. And to her partner, Jeff Kupfer, chief of staff on the panel, and John Ackerman, chief counsel, who did amazing work on the report and also had the idea for this event. They all worked hard together to put together the program and recruit the exceptional panel who we will hear from later.

I want to thank, also, Chelsey Crim, Jessie Dzura, Joanna Teitelbaum, and Blake Greene for organizing the logistics, which are always harder than you imagine. And when it looks like it's really easy, that's when you know that they worked especially hard, and it looks pretty easy today.

The Bush Tax Reform Panel was the first serious high-level effort at comprehensive income tax reform since the Tax Reform Act of 1986. I was a bit skeptical of the effort at first. The panel only included one public finance economist, admittedly an absolutely brilliant on in Jim Poterba, and its ground rules called for matching the revenue of a so-called extended baseline, assuming that the Bush tax cuts would be extended after their scheduled expiration in 2010, which meant that a large tax cut would be built into the baseline. I should point out that this was clearly the right answer because Jason Furman lobbied me furiously to choose that as our baseline when we were scoring Obama's tax proposals during the campaign.

The panel and its staff and Treasury staff worked tirelessly, taking testimony from many, many experts and citizens, and produced a truly astonishing report, which, if acted upon, would have produced a simpler and more efficient tax code.

Actually there were two options, either one of which would have been a big improvement on current law.

The report also debunked some popular shibboleths, like the idea that a 23 percent national retail sales tax could replace all existing taxes without blowing a hole in the budget. And even though the plan didn't lead to legislation, the panel's report is a fantastic reference work for anyone who wants to think about tax reform.

Our plan here today is not to engage in a nostalgia fest, but I did want to acknowledge what this panel and staff accomplished. I'd also like to remember for a moment one of its members, Bill Frenzel, who devoted his life to public service, first as a politician, including as a long-time member of the Ways and Means Committee, and later as a Brookings fellow and a world-class doodler. One of his doodles is in the Executive Summary of the panel report, which you have in your packet. I think everyone who knew him misses his intelligence, kindness, and sense of humor, all of which sometimes seem to be in short supply in the current political debate.

I have the great pleasure of introducing our keynote speaker and moderator, Howard Gleckman, senior fellow at the Urban-Brookings Tax Policy Center and editor of our blog, Tax Box, who will moderate the session. Our keynote speaker is Jason Furman, who is the 28th chairman of the President's Council of Economic Advisers, where he serves as President Obama's chief economist and a member of the Cabinet. He has served in the Obama administration in various economic roles since the beginning of the administration. I had the good fortune of working with him when he was deputy director of NEC in the Clinton administration and I was a Treasury DAS, and we always agreed on policy ideas. (Laughter)

Jason also was a Brookings senior fellow and early TPC scholar and I think helped us to establish our reputation as reliable and high-quality analysts. He's a terrific economist, who has a knack for explaining complex economic concepts simply and clearly. He does a better job of translating good policy into good politics and vice versa than anybody I know. I'm so grateful that he's agreed to talk with us today.

Jason. (Applause)

MR. FURMAN: Thanks so much, Len. It's really great to be back at Brookings. Not a lot has changed since I was speaking in this very room yesterday morning. (Laughter) But the crowd is just a testimony to how much incredibly serious and great thought goes into tax policy and tax reform. And the Commission's report, I remember, you know, how serious the hearings were, how terrific the report was. I've used it in my teaching. I still refer to it. And I think by saying all of that I'm now giving the first official comment from the government on the Tax Reform Commission unless you count the "we're still reviewing it" comment that was made 9 years and 11 months ago. (Laughter)

What I wanted to -- you know, you asked me to come talk about how do we get tax reform, and I think the reason you thought of that was that I've been working on the topic for the last seven years in government and on and off after that. I have a bit of bad news for you, which is we haven't gotten it. (Laughter) And so, you know, to some degree, for me, you can do an econometric exercise to figure out how to get tax reform and work on a variety of models. And it turns out a year fixed effect model with the year being 1986 is the model that fits the existing data better than just about any other one, but not something that gives us a whole lot of insight into what to do next.

I don't want to be overly negative. We actually, I think, in some ways, have made progress in the tax code. And if you think of the tax reform panel as setting out a North Star, I think we've moved a little bit in that direction. One way we've moved in that direction is the tax reform panel proposed to cap the exclusion for healthcare and I think it was the average premium for health insurance. And that's based on a theory that is widely accepted in the economics community that if you create a tax advantage for one form of consumption over another, you'll get too much of one, which is healthcare, too little of the other, which is consumption and wages more broadly, and you'll make people worse off.

Through the Cadillac tax we were able to do that. We set the threshold

considerably higher, but that threshold is indexed to the CPI, so it would be expected to phase in over time. It's something that would raise -- reduce health spending by about $60 billion a year, raise wages by about $45 billion a year, which is a relatively large and important impact and one that has been supported by economists from across the political spectrum.

The tax reform panel suggested more automatic enrollment in 401(k) plans, taking advantage of research on behavioral economics and some of the complexity of a system in which people have to make their own choices about retirement. And that was something that President Bush signed into law in the Pension Protection Act in 2006, and we've done further Executive Actions to push it forward.

We have more certainty in the tax code today than we had when the tax reform panel worked. We've taken some of the temporary tax cuts and made them permanent. Some of them for high-income households and let them expire, and we've indexed the alternative minimum tax to inflation so that it is a more sustainable basis.

But I don't want to overstate the degree to which any of those have transformed our tax system. Obviously, they haven't and, obviously, there's a lot more that remains to be done.

I want to ask the question of why it's been so hard to get tax reform. And in asking that question see if we can develop any insights that'll help us in actually getting it in the future.

The classic explanation is grounded in the logic of collective action, that whenever you create concentrated costs and diffuse benefits, you have a political challenge on your hands. I think the problems go even further than that because it's not just, you know, this industry is hurt, the economy as a whole benefits. But even within the same person, if they get the benefit of lower rates and the cost of a broader base, often they understand the thing they lost -- that base-broadener -- more than the dollars they're getting from the lower rate or they believe one more than the other, and you can't overcome that, as well.

The question is what do we have that can overcome this logic of collective action and then this almost analog to it at the individual cognitive level? And I can think of four possible ways out of it.

The first is to hold another Brookings event. (Laughter) We will test that proposition today.

The second is organizing yourself around a broad ideology that helps you overcome all of the particular interests. I think that's possible that we could see something like that, where just people believe it enough that it overcomes it, but it's had challenges. At the beginning of the century, we saw Republican control of the presidency, the House, and the Senate for most of a six-year period. You didn't see any serious effort to reform the tax code during that period. Today, in terms of business tax reform, you have, if anything, an ideological view on the left that why would you want to give something to businesses and on the right why would you want to give something to businesses and without doing something for individuals, too? And so I'm not sure how far that's going to be able to take us.

There's a third way to overcome the logic of collective action problems, which is cheating. And if you, for example, have a lot of Roth IRA realizations/conversions up front and lose money in present value over the long run or you take advantage of time-shifting, like depreciation rules or things like that, you can have something that purports to be revenue-neutral within the budget window. Sophisticated actors, especially on the business side, understand that it's actually revenue-losing in present value, and so you can create more winners than losers.

The problem with the cheating route is, one, it's not something that our administration is going to go along with and has been very clear about that and it's not something that we should go along with because the costs associated with the additional deficits over the long run will likely outweigh any of the economic benefits associated with tax reform.

So the fourth route, and the one I want to spend the most time on, is that

even if you're doing revenue-neutral reform so that in a revenue table on your tax forms the number of winners in dollar terms equal the number of losers over the next decade, that maybe in some deeper welfare sense the number of winners outweigh the number of losers. And that's, of course, possible if you're able to improve the efficiency of the tax code, if you're able to make the tax code simpler. And so the question is how far can that take us, that you can create something where the economic winners outweigh the economic losers even if in terms of actual dollars and cents you don't have them?

I think there's some potential for that and I think there may be the most potential for that on the business side of tax reform. And as an aside, I think it's interesting that, you know, since the tax reform panel wrote, the conversation on business tax reform has moved a lot further and congealing around a certain idea of what you'd want to do, although not congealing close enough that we're going to pass it this year. But an individual hasn't and the tax reform panel had business rates of 31-1/2 percent and I think 30 percent in the two plans. And if you look at the President, we've proposed 28 percent. The main congressional proposals are 25 percent. And then in the campaigns you see even lower numbers than that. So the whole conversation has shifted a little bit more to business and it's shifted to lower rates than what was under discussion on the business side a decade ago, and I think that makes sense given what we've seen and the trend in tax rates globally.

An example of how you can have economic winners without having a corresponding revenue loss would come from the international tax system. And that's a tax system that some textbooks describe as a worldwide system because it taxes you on income you earn anywhere in the world here in the United States. It's a tax system that in practice I've described as a stupid territorial system because you don't actually ever pay those taxes on the income that your CFCs earn on their overseas income.

While we don't collect any revenue, we do manage to impose substantial distortions in the form of locking out capital, reducing some of the flexibility companies would like. And that suggests that there is some market clearing rate you could think of

in a minimum tax framework that we've proposed, that we could collect more revenue, companies could have less cost and more flexibility, and everyone would be better off.

I think there's a number of other examples like that in business tax reform that would come from making a tax system that was more neutral not just in domestic versus international, location of businesses, realization of profits, but in debt equity where we have a spread of 40 percentage points right now between the tax rates on debt and equity; between the corporate and non-corporate form, where we have a spread of about 6 percentage points between those two and a spread that, by the way, tells us we want to be cutting the corporate rate more than we're cutting the individual rate, so the economics of business only makes sense when you think of it on an integrated basis. And so I think this logic, to me, feels quite compelling on the business side.

I would note that businesses in my experience are inconsistently persuaded by that logic. I've never met a corporate tax director who isn't incredibly enthusiastic about us using dynamic scoring to relax the revenue constraint over the next 10-year window. I haven't met that many corporate tax directors that use dynamic scoring in evaluating the effective business tax reform on their own companies. They tend to look at what did we do last year? If this new set of tax changes had been in effect, would our taxes have gone up or gone down? And I think until we think more broadly about what the economic benefits of tax reform are and incorporate those into the analysis, not just, in a sense, the statics analysis from the business perspective, we're going to have a hard time using that logic of more economic winners than economic losers in a revenue-neutral reform to propel it forward.

I want to turn now to the individual side and risk being a little bit unfashionable in a room, in a setting that is about a very serious and a very thoughtful individual tax reform, to say that I'm not entirely sure how quantitatively large the more winners than losers is on the individual side. And that that, frankly, leaves me a little bit more enthusiastic for looking at the distributional impact of tax changes, which strikes me

as often quantitatively large relative to some of the efficiency and simplicity.

I don't want to overstate that point. I think there's a lot we can do for efficiency. I gave the example of the high premium excise tax on healthcare. There's a lot we can do on simplicity, but I'm not sure if they're going to add up to anything close to the winners and losers.

To talk first about the evidence on growth, one of the most comprehensive simulations of comprehensive tax reform from Altig, *et al.*, in the AER, I think, 2001, found that a flat tax with transition relief, which is sort of beyond the outer edge of what I would think is politically possible, would raise growth rates over the first 15 years by 3 basis points per year and would raise growth rates over the next 135 years by 1 basis point per year, and after 150 years would leave the economy 2 percent larger than it would have been in the absence of reform. The same Altig, *et al.*, paper finds that if you do a proportional consumption tax with no transition relief at all and the same flat rate applying to everyone with no standard deduction, et cetera, then after 150 years you'd expand the economy by 9 percent.

Bob Carroll's analysis of the Tax Reform Commission found that the simplified income tax plan would have raised growth by a negligible amount and would have raised -- and the growth and investment plan would have raised it by, I think, a tenth or two or three a year. I don't think we want to sneer at tenths. I've, you know, in the context of trade have pointed out and argued that something like the Trans-Pacific Partnership is estimated at four-tenths of a percent of GDP after a decade. That's $75 billion a year. And it would be irresponsible for an economic advisor not to tell the President to sort of stoop down and pick up $75 billion a year that's lying on the sidewalk. But if you're asking the political question of is that going to be enough to overcome the impediment, I'm not sure. I think we have a challenge there.

The challenge is deepened by growth isn't the right way to think about the question. It includes something it shouldn't and omits something that it should. What it includes is if you work a lot of extra hours to produce that extra national income, you

have a disutility associated the hours: less time with your children, child care expenses, transportation, and the like. And so we should equate that with welfare.

On the other side you can have things like the high premium excise tax for healthcare, where we have a benefit that doesn't necessarily manifest itself in terms of larger national income. It manifests itself in terms of a more efficient allocation of consumption. The problem with the more efficient allocations of consumption, I can tell you from personal experience, is you don't get a lot of thank-you letters for policies that lead to them. (Laughter)

The next area is simplification. And I think the awkwardness for tax reformers here is that we love going through that list of tax expenditures and talking about how many there are and how much they add up and how terrible they are. About half of those tax expenditures are exclusions. And exclusions are making it easier for people to measure their income. So we could get rid of all of those, move closer to a Haig-Simons tax, thrill a lot of people in this room that we are not taxing home production and imputed rent, and you wouldn't necessarily make tax filing any simpler.

We've done some work in the administration that has basically confirmed that if you look at the number of hours that the bulk of the complexity in the tax code comes from, the measurement of income, where you have a real tradeoff between some of the sort of rough justice from omitting the things that I just described and some of the efficiency the tax reformers would like, the deductions -- mortgage, charity, state and local -- and the exclusions tend to be -- I'm sorry, the deductions tend to be a much smaller source of that complexity. Some of them, like the mortgage interest deduction isn't particularly hard to do at all. Moreover, you don't get any simplification benefits from reducing a deduction. You have to eliminate it entirely, and many of the tax reforms would reduce it.

That's not to say we can't simplify, but I think some of the simplification isn't going to be from the classic base broadening, but is going to be steps like ones we've taken of having universities report to students the information they need to claim

their tax credits for education and other things that make it easier to file and prepare your taxes.

Finally, we come to distribution. And this was beyond the mandate of the tax panel for understandable reasons. It was charged with being distributionally neutral. There is an appeal to distributionally neutral because we can all agree on it and I think one of the ways in which business tax reform could ultimately be easier is it doesn't get you into those debates over distribution and over revenue.

But when you look at distributional questions it is very easy to have a tax policy that takes people at 20- or $25,000 a year and raises their after-tax income by 5 percent, which is way more than those numbers are 150 years on the growth effects that I was giving you for a flat tax with transition relief. And it's easy to lower after-tax incomes for high-income households by, you know, 2, 3 percent, and to do all of that in a revenue-neutral manner.

Now, I'm not saying everyone in this room thinks that's a good idea or thinks that's a bad idea. But there is a set of tools we have that, in some sense, more quickly, more reliably have very large and meaningful effects. And that's why I think we have very large and meaningful debates and disputes over those distributional issues. But if we're trying to do something about the income of the bottom third, the middle 20 percent, the bottom 90 percent, whatever it is, I don't think we're going to necessarily be able to do it without -- with reform that's constrained to be distributionally neutral because I don't think the other benefits are necessarily going to be large enough to overcome the impediments.

I want to wrap up by trying to talk about where we can go from here. The first is I continue to think that business tax reform is very important, that there are potentially a number of benefits, and that by taking you out of that distributional debate that I think is almost inevitable on the individual side, there is potential to make more progress on it. I think that progress is going to come about if we detach the business debate from the individual debate because if you're in a conversation about how to lower

all rates to the same number, that number is going to be 39.6 for individuals and 35 percent for corporations. If you're willing to separate those two and think about it from an economic perspective, which is on an integrated basis -- what's the tax rate on C corps; what's the tax rate on passthroughs -- I think you have an economic logic for separating and a political logic.

Second, I think there are a number of steps in the tax code where this is common ground. I think the CITC is a great example of that. It's something the President proposed to expand in his budget, a proposal that now Speaker Paul Ryan adopted coming out of his process and thinking about poverty, and one that you see presidential candidates from both parties supporting. And my guess is the next time we're making changes to the tax code that that's one of the changes that we'll be making.

I would suggest adding to that list some other items. You know, when you think of step-up basis for capital gains, we've proposed it in conjunction with raising the rate on capital gains to 28 percent, so we both change the way capital is taxed, but also changed the level of capital taxation. Those two halves of the proposal are, to some degree, separable. And I think there could be a greater degree of consensus that you want to avoid lock-in of capital gains. That's one of the ways in which there's an economic cost that's not incurred as a commensurate benefit to the Treasury in the form of revenue and you can improve the system and then, you know, after that argue what the level of capital taxation is.

Finally, I don't think we should give up on individual reform. I think the goal of improving efficiency, the goal of improving simplicity are important. But having reforms that you can break off pieces of and do them as steps along the way I think is important.

Finally, I think there's a lesson, you know, for those of us in the policy community and in the economics community, which is that we should be even more serious and frank about what the upsides and downsides of different approaches are. And if we get that analysis right, it will both help guide better policy, but also maybe help

even identify some of the obstacles to why policy does and doesn't happen.

I think, for example, you know, looking at more dynamic distributional welfare analysis of tax changes would be welcome. What I mean by that is you have the analysis of the tax change itself, the traditional distributional change. You include the dynamics in it, so any changes that result from that tax change. You include on a welfare basis, so if somebody works an extra hour because you reduced the tax wedge, that's counted as a welfare improvement, but not dollar-for-dollar with what they earned. And if GDP doesn't go up because you get wages instead of healthcare, that's also counted as a welfare improvement. Although, again, not dollar-for-dollar with the increase in the wages, so it would look at welfare, not just at income.

And then finally, it would take seriously what Bill Gale and Peter Orszag and others really pushed for year, which is looking at the financing. It's really easy to make everyone better off if you're ignoring the way in which it's being paid for. So integrating the financing, the welfare, the dynamics, and the distribution, all four of those factors to evaluate and think about tax reforms and help guide us to which ones are going to serve whatever objectives we have, and I laid out some of the ones I had.

The second thing would also be to take more seriously the modeling of complexity, how many hours are coming from which parts of the tax code. If you make this set of -- you know, if you get rid of every tax expenditure, what have you done to the number of hours? Has it gone up or gone down? You know, which ones are the most complicated? And not to just do that at a superficial level, but sort of roll up your sleeves and think harder about where those sources of complexity are.

I want to end with what I began, by really thanking you all for a terrific report, a report that I've read several times and that I would love to see continue to guide thinking in the future. And I'm really glad that we're coming back and talking about it again 10 years later. So thank you. (Applause)

Am I standing here? Leaving?

MR. GLECKMAN: You're not leaving. You're not getting off that easy.

We could maybe stand. I don't know, what do you think?

MR. BURMAN: Yeah, why don't you sit down?

MR. GLECKMAN: Okay, all right, good.

Well, thank you very much for the analysis. Can you all hear me? How's that?

Let me ask you, if I can, start with a bottom line question. You said that there would be no tax reform this year. Well, there's only three months left in this year, I think we all knew that. What about business tax reform next year, in 2016? Is this an important enough issue to the President that this could happen in some form in 2016 or is this something that's going to have to wait?

MR. FURMAN: It's something we'd always love to happen. He put it on the table in his State of the Union five or six years, was the first President in decades to call for cutting the corporate tax rate, followed up with a framework for tax reform. There were a set of high-level discussions that I think in many ways converged around a framework in terms of roughly where the rate is, roughly how you're paying for that rate. Then on the international side you'd have a hybrid system that wasn't pure worldwide or pure territorial, that you'd take seriously integrating, especially small businesses, small business passthroughs, into your thinking about reform.

The big hang up was the question of whether the individual rate needed to be cut in conjunction with the business tax rate. And, you know, as I said, I think that's impossible within a revenue-neutral, distribution-neutral reform. And I don't think it's necessary in a world where you're retaining capital gains and dividend taxation. You shouldn't have the same tax at the first level for businesses and individuals, and there's other ways to deal with the passthroughs. So I think that impasse has what has been standing in the way of it and I'm not the one who can give you the most insight into when that impasse and how it could be broken.

MR. GLECKMAN: Okay, thanks. Want to give you all a chance to ask questions. A couple of guidelines: please introduce yourself, wait for the microphone,

and please make your question a question and not a speech. Jason's the only one who gets to give a speech this morning.

So let's let maybe Bob --

MR. POZEN: If I can speak loud enough.

SPEAKER: No, use the mic.

MR. GLECKMAN: Yeah, they need the mic for the -- yeah.

MR. FURMAN: Oh, you're getting one.

MR. POZEN: My name is Bob Pozen. I teach at MIT. Just following up on your point about passthroughs. So we know that the corporate tax rate reduction from 35 to 25 doesn't help passthroughs for obvious reasons. And you don't want to, for good reasons, don't want to get into the debate about the top rate. What can you do for passthroughs that would make them support business tax reform other than reducing the rate? Because they're going to feel, rightly or wrongly, that you're helping the big guys and not the small guys.

MR. FURMAN: So if what you're talking about is small passthroughs, you know, $25 million of income a year, $50 million of income a year, then I think you can take care of them. And we've proposed things like expanding Section 199 -- Section 179 -- we've also proposed expanding 199 for a different reason -- expanding 179 expensing. And one of the principles of the President's framework for tax reform was that it should simplify and cut taxes for small businesses, so that, I think, we can do.

If you're trying to look at the passthrough sector as a whole, including large passthroughs, I don't think you can do that. I don't think you should do that. Again, if you look at either the Treasury or the CBO rates, and I'm rounding here, on an integrated basis C corps are taxed at something like 28 or 29 percent because you have some tax at the first level and some tax at the second level, you add those up. Passthroughs are taxed at, you know, 24 percent. One of the goals of a tax system is to have tax rates more neutral over different types of activities so that you're undertaking those activities for economic reasons, not for tax reasons.

And so if you're trying to lower everyone together, you've undone the whole point of tax reform, which is creating tax rates that aren't distorting decisions in the way that they're distorting them today. So I don't think you want to necessarily overcome the large passthrough problem. I don't think you can.

MR. POZEN: Thank you.

MR. GLECKMAN: Other questions? Yes, sir, right here.

MR. DWARSKI: Alan Dwarski, retired equity investor. This summer I happened to hear Professor Gordon of Northwestern speak, who was writing a book which will be out, I guess, in the coming year or so about the changing character of the American economy. At the high end, leaving out small companies, the larger mature companies have been put together with acquisitions and mergers and multi-divisions. One wonders in a slow-growing economy at the high end, for various reasons, what the real need is for corporations to have more money. If they have more money, they'll be paying larger salaries, there's no question about that. It's not clear that it is going to stimulate the growth of the economy.

At the low end, yes, it'll help small companies finance their innovations and growth more rapidly. So I suggest a distinction between large, mature, multi-aggregated companies who don't really need the money in a slowing economy at this time and for the foreseeable future versus the small companies.

MR. FURMAN: Right. Yeah, I think I got the drift of your question. And what I was talking about and what the tax reform panel was talking about a decade ago was revenue-neutral tax reform, so I'm not talking about collecting more or less taxes from businesses. It's just, you know, collecting them in a less stupid way. And I think businesses are critical to job creation and raising income, and if we have a less stupid way to collect taxes from them, we should do it.

MR. GLECKMAN: Okay. Other questions? Bill?

MR. GALE: Thank you, Jason. Bill Gale, Brookings Institution Tax Policy Center. Thank you, Jason, for being here. Your last comment about raising taxes

in a less stupid way leads directly into my question.

We talk about tax reform as if it's only income tax and corporate tax. What about a carbon tax? Is there any chance of working that into a reform perhaps in a revenue-neutral way?

MR. FURMAN: That was beyond the purview of what the tax panel considered and so I'm going to try to limit myself just to things that were in the tax panel report today. (Laughter)

MR. GLECKMAN: Good non-answer. Thank you. (Laughter)

Way, way in the very back, behind the cameras.

MR. BRAZELL: David Brazell. Jason, I was struck by your statement that almost all economists think we should be taxing medical benefits, but isn't health expenditure, could you not liken that not as consumption, but as maintenance of human capital or perhaps even investment in human capital, that it's not equivalent to a trip to Wally World? And, therefore, I'm not really balancing consumption versus -- tax consumption versus non-tax consumption, but a maintenance expenditure which should be deductible under net income tax rules?

MR. FURMAN: So, first of all, in my specific statement that most economists support that was factually correct. Whether most economists are correct is the question is the more interesting one that I'll address.

You know, there's all sorts of consumption that's really worthwhile. Education is a great thing to spend money on. There's also maybe like gym memberships are a great thing for personal human capital maintenance, and those aren't tax-deductible. So I don't think the idea is to tell anyone you should go to Wally World instead of getting a checkup. It's, in a sense, to leave that choice to people.

The other thing is our proposal isn't to tax all health spending. Our proposal is to tax health premiums on a family plan to the extent that it's above $27,600. And I think if you are spending more than that on a health plan, you probably are in the area where you're getting very little additional health benefit for those extra dollars. And

with a little bit of pressure in the opposite direction you could have, you know, just as good a health outcome, spend less money on health, and then be able to use your money for whatever you want, whether that's going to school or going to Wally World or going to the gym.

MR. GLECKMAN: Jason, I want to ask you about revenue neutrality. That obviously was an important piece of the Bush tax panel. It was a key piece of the '86 act. But in the political debate I'm hearing now I don't hear a lot of people talking about revenue-neutral tax reform. I hear Republicans talking about huge tax cuts. Senator Sanders is talking about big tax increases, at least on high-income people, and I don't hear about offsetting changes for lower-income people. How does that change the dynamic? What does that mean for discussions about tax reform going forward?

MR. FURMAN: Look, as I said, I think, you know, if you are willing to violate revenue neutrality it would make tax reform easier to do, but it would end the point of doing tax reform, which is to strengthen us as a whole. And I think in the business side there has been a little bit more of a stickier presumption around revenue neutrality and so that's part of what's attractive to that is it gets you out of the debates on the individual side over the right level of revenue.

You know, one problem with revenue neutrality is that every dollar that goes to someone comes from someone else. And we've seen that, for example, when you have a revenue-neutral plan with a top rate of 25 or 28 percent, it's very hard, if not impossible, to do that and have the numbers add up without higher taxes on middle-class households. And I think that's now well enough understood that the desire to go out and repeat the same type of thing and propose a tax increase on middle-class households is maybe not as strong as -- yeah, isn't present.

MR. GLECKMAN: Time for a couple more questions. Yes, sir, in the blue shirt.

MR. CHECCO: Thank you. Larry Checco. I would just like to challenge this gentleman's assumption that corporations who are now sitting on trillions of dollars'

worth of capital are not increasing their salaries. They're buying back their stock, which is I think part of the problem.

But the other thing I see is that what are the efforts to reclaim some of the incomes that's being held overseas by a lot of these corporations? It's my understanding that there's a lot of uncollected tax revenues that are just sitting in banks and foreign banks. Thank you.

MR. FURMAN: Mm-hmm. So our proposal in that regard would be to have a one-time deemed dividend, a taxation on all that income that's overseas of 14 percent. And then on a going-forward basis, to reform the international tax system so you're immediately paying 19 percent on the money you make overseas. You get a tax credit against the taxes you've paid overseas and thereafter you're free to bring the money in and out whenever you want.

Bob Pozen actually was one of the first to propose an idea along those lines. I want to blame him for any detail that we've gotten wrong. (Laughter) But, you know, I think things in that space that are somewhere between you don't tax it at all, which creates a whole set of distortions in terms of shifting profits and possibly even production overseas, and you tax it all at U.S. rates in full immediately, which would also cause a huge set of distortions in a world where our rate's higher than most everyone else's and certainly higher than the lowest rate anywhere in the world, with, to some degree, is the right question for evaluating that. So going somewhere, you know, in between the two of those. Rosanne Altshuler's written and Harry Grubert and others have written a lot about ideas along these lines, too.

MR. GLECKMAN: Time for one more question. Yes, ma'am?

MS. OLDAK: Hi, Reggie Oldak, National Women's Law Center.

MR. GLECKMAN: Hang on just a second.

MS. OLDAK: Thanks. Reggie Oldak, National Women's Law Center. I understand you're talking about revenue neutrality. I'm a little confused and I thought perhaps Howard's point about that being discussed less often now might lead to some

discussion about positive revenue. Where do we get the money to raise the budget caps, to fund the priorities of the country, to support women and their families with the programs that they need to alleviate poverty if we're focused on revenue neutrality?

MR. FURMAN: Yeah, just to be clear, we have proposed raising revenue and we have proposed cutting tax expenditures, limiting them to 28 cents on the dollar across the board. And I should have put in a plug for that earlier, that I think there's been an increasing amount of traction in recent years for things that don't go item-by-item through the tax expenditures, but put them all into a basket and treat them the same way. And it's not like that's passed, but it seems like more people are interested in that than the other, so maybe we should keep riding that horse and see how far it gets us. So we've proposed that.

And we've also proposed reducing spending on the spending side, including Medicare reforms, both in terms of payments and the structure of benefits, so a combination of revenue and spending to deal with the set of important issues that you raise. So we certainly would like to do that.

When I was being asked about what there might be more of a near-term consensus for, that was part of why I was taking the individual side out of that near-term consensus. I don't think there's a consensus that we should raise individual taxes by $600 billion or whatever it is we've proposed over the next decade. There's not a consensus that we should cut individual taxes by whatever Republicans in Congress have proposed over the next decade either. That's why maybe wall that debate off, have more of a debate about what you can do on the business side, and there it isn't about helping businesses or hurting businesses. It's just about doing what we're doing today less stupidly.

But, you know, I've had that theory for the last six years and so far it hasn't materialized, but it does, in some ways, feel closer to me than it felt six years ago.

MR. GLECKMAN: Okay, we're out of time. Jason, thank you very much for coming and great to hear. (Applause)

MR. WESSEL: Well thank you, Jason and Howard for that. I am David Wessel, I am director of the Hutchins Center on Fiscal and Monetary Policy and I have the privilege of taking this discussion to chapter 2.

Senator Breaux noted that the room is full and there are a lot of people standing in the back. Why don't you sit down because Roseanne is going to come up first. Senator Breaux noticed that there are a lot of people, a lot of seats are full and people are standing in the back and he said: "Wow, there are a lot of tax geeks in Washington." I said: "That's true but 100% of them are in this room. And the other conclusion I draw from Jason's comments is that writing proposals to improve the quality of the tax system is something like the ultimate act of hope.

We keep thinking that if we just do enough of these plans and make and have enough events at Brookings and Urban Institute to discuss them, that one of these days, our esteemed elected representatives will get the message, pull them of the shelf and we will live happily ever after.

I am not sure I'd bet my IRA on that but it's worth keeping that thought alive because otherwise, we're doomed. What we're going to do next is we really have an extraordinary set of people here today.

We have four of the eight living members of the -- or I think five of the eight living members of the original panel and what we're going to start with is Roseanne Altshuler, who of course is a professor of economics at Rutgers who worked on the report, is going to come up here and about eight to ten minutes is going to talk about what the hell was in this report that everybody is so in love with and then afterwards I am going to be joined on stage by John Breaux, who is a member of the commission and is now at Squire, Patton, Boggs. Eddie Lazear who is now a professor at Stanford, was on the commission, was of course counsel of economic advisors chairman in the George W. Bush administration. Jim Poterba, also on the commission, a professor of economics at M.I.T. and president of the National Bureau of Economic Research and Charles Rossotti, who is now at the Carlyle group, was on the commission, is a former commissioner of the

Internal Revenue Service and has written a book about his job there which has, I think one of the best titles for any book on the tax code.

It's called "Many Unhappy Returns" so I'd like to welcome Roseanne up here and then we'll have our panel and I also want to mention that we also are fortunate to have in the audience, Liz Anne Sonders who is on the panel and Jeff Kupfer who was the staff director. So, Roseanne?

MS. ALTSHULER: Okay, thank you very much and the turnout is just amazing. Let's see what we have here. Okay, we are going to start with that.

I stand here today with an enormous sense of déjà vu. In preparing, I looked back at the files that I had for this talk and I found a PowerPoint that started with this slide so what's incredible it's that the exact date, November 3rd, 2005. So I thought this was great, all I have to do is change the date -- one number really and here we go. So I had a lot more time last time I was at Brookings. I am going to have to fly through this so I did change it to make it go a little bit faster.

So what I am going to try to do today is give you a brief history of the panel. We know that it was 10 years ago and it was in January that President Bush created it. Here's a picture of the panel at one of 12 hearings. This one is with Alan Greenspan and here I've listed the panel members. The report was delivered to Treasury Secretary John Snow on November 1st, 2005 and treasury is still studying the report so we're still waiting for that.

The executive order I think people may be familiar with. Revenue and neutral options that would make the tax code simpler and more conducive to economic growth, revenue neutral so we had to have baseline, we used and accepted the administration baseline which assumed that the 2001 and 2003 tax cuts would be made permanent and the AMT patch would expire as scheduled. Additional constraints, and this is where we get into fairness, sharing the tax burdens and benefits in an appropriately progressive manner while recognizing the importance of home ownership and charity in American society. At least one option that made it interesting was to use

the Federal Income Tax as a base, which meant that we could do anything in our other options.

We put forward two plans; they were unanimously recommended, which I think is really neat. A simplified income tax plan, we call it the SIT and then the worst named tax reform plan ever, the Growth and Investment Tax Plan. We honestly were too tired at the end to come up with a better name. We also studied the retail sales tax and the value added tax and that's included in the report.

So what was in the SIT? So I am going to go through some household provisions. First thing, and we considered this our own constraint which was to eliminate the AMT and in the words of Larry David, "That was pretty pretty pretty expensive" so that really was a constraint for us. We had a family credit that replaced the standard deduction, personal exemptions and the child tax credit and a work credit that replaced the EITC and the refundable child tax credit. The tax benefits that were provided were comparable to the current system but really simplified, much simplified.

We also reduced the marriage penalty, we eliminated phase outs, except for the work credit, and there's a little box in the report that explains why we kept the phase out. We simplified the treatment of social security benefits and we ended up with the tax rate schedule that's given there, 15, 25, 30, 33 was the top rate. Now the panel started with a clean base, a tax base that was free of exclusions, deductions and credits and decided to keep only those that they thought promoted widely shared and valued goals and if anything that was put back into the base, we did it in a simpler way that made the benefit available more widely.

What did we have? What are the big points that I want hit? Home credit, this was 15% on interest paid on a principal residence that was available to all tax payers. This was an interesting innovation; it was limited to the average regional price of housing; we used FHA limits. We also made the charitable deduction into a above the line deduction for all tax payers and it would be contributions above 1% of income. On health insurance, we equalized the treatment of employer provided and purchased

coverage and then we limited the benefit on gold plated plans. The limit was the average cost of health insurance in the Federal Employees Health Benefit Plan and Jason has already hit on some of these things.

We eliminated the deduction for state and local taxes. For education, we replaced current provisions of which there were a lot, kind of duplicative and overlapping with the simplified saving account and we expanded the family and then we put the students on to an expanded family credit so that's how we dealt with education. Those are major credits and deductions and we had a saving and retirement package. We came up with three catchy names for savings plans. The Save at Work Plan was what we did with the fine contribution plans; we consolidated them into the Save at Work Plan with simple rules and autosave features that Jason has already mentioned. We had then a Save for Retirement Plan which is a new account that would combine all of the existing individual retirement savings accounts, a Save for Family account that replaces existing saving incentives with a new account that would encourage saving for medical expenses, here's where education went, new homes and retirement so that's the Saving and Retirement Package that we had going forward.

Interesting provisions for the treatment of investment income so these are returns that would be outside for the plans so we would exclude 100% of corporate dividends paid out of income subject to U.S. tax so that means that if you get a dividend from a company and 80% of that company's worldwide income was subject to U.S. tax, you only have to pay tax on 20% of the dividends and this is what we're talking about today as corporate tax geeks and nerds and also it required disclosure of domestic and worldwide revenue and income reported for financial accounting purposes. This is very BEPS like. We were way before BEPS for those in the know. The OECD's base erosion and profit shifting project, this is kind of BEPS action 13 and then we would exclude 75% of capital gains received by individuals on sales of corporate stock. All other capital gains were going to be taxed at ordinary tax rates. At the same time, we increased the exclusion for gains from the sale of primary residences so that's the household side.

We were all about simplicity and cool graphics so this is a graphic that shows the current at the time, 10-40. It's got to be worse now with related schedules, forms, and worksheets and it is kind of hard to read but here is what we came up with and actually this is one of the handouts; this is the postcard so it's two sided and you can see that there was really quite an astounding bit of simplification. On the business side, there would have been a lot of simplification of small businesses, taxed at individual rates, cash basis accounting which means cash receipts minus cash expenses is what you're going to be taxed on. Expensing for everything except land and buildings, huge simplification. Large business, we would have lowered the rate to 31.5% and we would have taxed all businesses, LLCs, partnerships, S corporations at that rate and all tax preferences except a new simplified accelerated depreciation were out of the code along with the corporate AMT, which I forgot to put here, so that's business provisions.

On the international provisions, we went from the current system that Jason called "stupid territorial" to what, at the time, we called "brilliant territorial" so we would have had rules for the allocation of interest expense and parent general and administration expenses and I want to point out that after reading the report, both the UK and Japan went territorial so, someone was listening. So finally, there was the other plan where we taxed growth and investment but actually it was supposed to spur growth and investment. Apparently on the campaign trail, on the republican side, we have some plans that are very much like, what we call the GIT and it's a hybrid approach and it moves the system toward a consumption tax so we would have had progressive tax on labor income at rates of 15, 25, and 30%. A 15% tax on capital income at the individual level earned outside of our savings plans and a 30% tax on cash flow at the business level. Just looking back and just honoring David Bradford, without that 15% tax, this was the X tax and we were very interested in studying it.

The individual provisions are very similar to the SIT so I don't have to go through them. The business system is you're going to tax business on cash flow and so it's basically sales minus purchases, wages and compensation and that's what the tax is

going to be on.

Full expensing of capital investment, no inclusion of returns on financial assets, no deduction for financial payments so that's not interest deductibility so this is just a cash flow tax and finally what happens on the international side, what happens on cross border transactions, we'd have something that everybody is talking about these days, again in the corporate tax, what should we do reform circle, is a destination based tax. A destination based tax means that the tax base would be domestic consumption wherever it was produced; you're just going to tax domestic consumption. To do this, we would have to border adjust the tax which actually is not technically allowed under GAT and WTO so we didn't take any money from this but what you do is you exempt exports so sales to customers abroad are exempted from the tax, while purchases from abroad, imports, remember it's domestic consumption, would be included. And what's neat about this is that is solves the pricing problem which is really what we're talking about today when we talk about international tax. It's really why we feel like we have to reform the international tax system.

If you were able to border at just the GIT, we wouldn't have a transfer pricing problem, that's because there would be the base is domestic consumption so you just wipe that problem off and that, everybody, is a short summary of the plan.

MR. WESSEL: Thank you, Roseanne, let me ask the panelists to come up here so we can keep going and we will have time for questions at the end so hone them while you're listening to the brilliant commentary up here. I want to congratulate Roseanne for managing to summarize that really extensive report in such a short time. When she showed me the number of slides, I thought she's never going to be able to do it but fortunately, she speaks fast and that's always a plus when you're talking about taxes.

Senator Breaux, I wonder if I could start with you? So if this was such a good idea, why did it go nowhere politically and has the political environment improved or deteriorated in the last ten years?

MR. BREAUX: Because we gave it to politicians.

MR. WESSEL: This is a vote against democracy here?

MR.BREAUX: I'd like to thank the Brookings Institute for hosting this and allowing us to have sort of a class reunion from the tax reform panel. When Jeff Kupfer first talked to me about whether we'd be willing to do this, I said it would be a great idea, many of the people on the panel we have not seen for ten years and I was thinking it's like a class reunion where everyone attends and we look to see who's gotten older, who's gotten heavier, who's gotten grayer and we all brag about what we're now doing after 10 years so it was a great opportunity to come back and visit some of the folks that served with us.

When President Bush asked Senator Connie Mack and myself to co-chair the tax reform panel, I thought it was a great idea and when I saw the other panelists that they had appointed to serve with us, I knew it was going to be a good operation because we had real experts in tax policy serving as members of our panel and the unique thing about the panel, all of us, the very unique thing was none of us were running for public office again and that is far different from many of the other opportunities and efforts that are trying to do tax reforms when you have active political individuals who have to run for public office every 24 months serving on these panels. We did not have to worry about the political consequences and how they would affect us individually so we could really look at the policy and then decide what was the best recommendation in a very bipartisan fashion. We had more liberal thinkers, we had more conservative thinkers, we had democrats and we had republicans, which made it a very unique committee. Now, when we finished the report, I got the report here. I have it in my ring binder, underlined, highlighted and everything else and when we gave it in that picture, you all saw the picture of Connie Mack and I presenting it to Secretary John Snow. Snow signed my book, he said: "John, thanks for your great work. Now it's up to us" signed John W. Snow.

I remember when we started taking the report around various members,

the reaction that we got was really not surprising. I remember going to my current law partner at Squire, Patton, Boggs, Trent Lott, who was the majority leader on the republican side. We brought the report in, gave it to him, his staff had briefed him on what was on the report. He looked at us and said: "Thank you all very much. You all have a good day" and that was it. If you look at what the administration did with it. I mean, I remember quite vividly, going in and seeing then President Bush on another subject and some of you have heard me tell this story, which is absolutely correct.

So after we finished the meeting, I started walking around the back of his desk and kind of looking at the back of his desk and the drawers and he said: "Breaux, what the hell are you doing?" And I said, "Mr. President, I am looking for our tax reform package, you must have filed it and lost it somewhere because we haven't heard anything from the administration." He said: "Breaux, get the hell out of here." So, it's interesting as Roseanne has spelled out what we did. The requirement that it be revenue neutral is critical. It's not that difficult to write a tax reform package, witness all the presidential candidates that are attempting to do so but if you want to make it work and you want to make it reasonable and balanced and fair, that's the challenge so we had to pay for and if you look at some of the pay fors that she went through, they were significant pay fors because we reduced corporate rates, we reduced individual rates but we had to pay for it. We paid for it by eliminating state and local tax deductions by putting a cap on insurance premiums that you can receive that would not be taxable to individuals, which I thought was very fair because you can get a health insurance policy equal to the federal employees health benefit plan which all the federal folks were under which is very generous and that was going to be non-taxable. Anything over that, if you wanted a Cadillac or a Rolls Royce plan, it would be counted as income but then we put a cap on mortgage interest deductions and the ability to deduct the interest on your mortgage which most industrialized countries don't have, we still have.

Those were three very sensitive pay fors that we put into the package and then if you look at who was in control of Congress at the time, Bill Thomas was from

California and was chairman of the Ways and Means Committee. Guess who ranking member was? Charlie Rangel. New York, California very high state and local taxes in both of those states. Very high mortgage interests because of the high price of housing in New York and California so those things, for them, was a non-starter and they weren't going to touch it with a ten foot pole so when they started voicing their opposition and other folks started voicing their opposition, it was really, I think, dead on arrival and the rest is left to us. Well it was. I suggested the President make it part of this State of the Union address, hold it up and say to members of Congress, I have this report to simplify the Federal Income Tax and I challenge you Republicans and Democrats working together to implement what this report has in it or a variation of it. They didn't do that; if he had done that then Congress didn't do it, it was Congress' fault and administration would have come up ahead.

Now the last part of the question was where do I see the situation at ten years later. I am actually encouraged by some of the new leadership and the positions that they've taken. If any of you the Politico just yesterday, the front page story was Ryan's boost as Speaker of the House could be big boost for tax reform and the interesting thing in the article that I noted was him addressing some of the pay fors that we had in our bill which actually was a principle thing, dooming our bill from ever becoming law. They quote him in the article as saying, of course his support for dynamic scoring but also his call for halving the mortgage interest deduction by allowing tax payers to write off their interest costs on only the first $500,000 which is what we were trying to do in our plan.

Second, his call for junking the half-century old tax exclusion that companies get for providing workers with health benefits. We addressed that, we contended to allow employees to be able to deduct it but started having it taxed to the individuals after they exceeded the Federal Employees health benefits status but he's addressing that. The third, thing, Ryan wants to kill a long standing deduction for state and local income taxes. Those are the three hotly debated items that we had in our plan

as pay fors. You now have the new incoming Speaker of the House, former chairman of the Ways and Means committee that has indicated his support for all three of those things, from the republican side. If you look at the finance committee with Ron Widen who has shown a willingness and is smart and intelligent and is willing to step outside of the traditional normal Democratic thinking combined with Orrin Hatch, who is willing to work across party lines, with Democrats, to try and reach a consensus. I think that the combination of what we have now makes me more optimistic for real tax reform in 2017 than I've seen in a long time, perhaps since the time we completed our report, thank you.

MR. WESSEL: Well thank you for bringing us a dose of optimism which one doesn't hear very much in Washington these days.

MR.BREAUX: Got to be a few in this business.

MR. WESSEL: Mr. Poterba, I wonder if I can ask you to think about the economy in 2005 and think about the economy in 2015 and all the ways it has changed. We have widening of inequality, we have far more mobile capital, bigger issues about international taxation, lots of concern about healthcare cost. How does that environment, the changed environment affect how one thinks about tax reform?

MR. POTERBA: I think, David, there are several things that have changed in the environment and before I enumerate them I do want to say a very important thank you to the staff of the tax panel who are here with us this morning. Roseanne has already been noted but Jeff Kupfer who is our chief of staff and John Ackerman who is also here as well as all the folks at treasury who did the day in and day out analysis of the various proposals and you've heard about two plans that emerged but there were many many more that were considered along the way and there were many nights and weekends that the treasury staff spent on this and we appreciated all of their work so thank you to all three of them and the many folks at treasury.

To get back to your question, David, on what's different. I think there are maybe four things that I would point to. The first is that concerns about inequality is the distribution of pretax incomes and the distribution of after tax incomes, I think have

become more important over time, partly that reflects a widening of the pretax distribution of incomes in the U.S. in the last decades, partly it reflects greater retention to the nature of that distribution. I think actually the tax system, particularly the role of pass through entities and maybe that could be contributing to some of the widening that we observed in the reported distribution of incomes, especially the concentration at the top but I think in that environment, the way which one contemplates tax reform is a bit different because particularly the GIT plan that we discussed was an attempt to lower effective tax burdens on capital and to remain in a revenue neutral setting and given the distribution of capital ownership which tends towards the very top end of the distribution, if you're lowering income tax burdens, you have to work hard not to end up with somewhat greater inequality in the distribution of tax burdens as you do that. Now, that can be addressed in various ways, particularly by trying to broaden the base and capture more of the income that does flow to the top of the distribution but it's a challenge and I think the challenge would be greater today given the increased inequality and the increased salience of inequality.

MR. WESSEL: Just want to make sure I understand what you're saying; you're making two points. One is that it's harder to make it distributionally neutral today and then are you also saying maybe that shouldn't be the objective?

MR.BREAUX: That comes to the second part of the discussion which is the growth imperative and the reason for trying to lower the capital tax burdens is because there tends to be more evidence suggesting that you get more growth if you do that than if you change other parts of the system. I think the second point is that today we are much more attuned to the need for economic growth. We've been through a period of slower growth and we hear much more discussion around looking for ways to try to add even a couple of percentage points to the growth rate.

I think part of the challenge of linking taxes to growth is just that we in the tax world don't have the capacity to do controlled randomized experiments in which we assign one tax scheme to one country, you know, to Sweden and another tax scheme to

Norway and come back 20 years later and look at their GDPs. The calculation that was done in some of the research paper that Jason alluded to earlier but done in a simulation way and not in a real world way. If there were really solid evidence linking particular tax changes to particular growth outcomes, the documented policies could do that very successfully and it was transparent. It didn't require going through the filter of a lot of economic analysis. I think there would be tremendous support for some of those policies given the great concern in the U.S. today was trying to bump the growth rate up to some of those rates that we've seen before. I think at the same time, the inequality discussion makes it a bit harder to try to push towards pro-growth policies. The desire to get growth rates back to rates that we've seen in prior decades makes it more important to keep thinking about those possibilities and how that creative tension plays out, I am not exactly sure. The third thing that's changed, David, is, I think the corporate side. If one were starting this today, the corporate side would be much more salient in the discussion because it feels broken. The poster child for this is the corporate inversion activity. The fact that we hear, just in the last week or so, the CEO of Pfizer, explaining matter-of-factly, that the kind of policy steps they are considering taking to potentially invert are driven simply by a global competition imperative that they cannot compete against firms in their industry that are based in other countries and this is not a matter of loyalty or anything else. It's simply a matter of where can you manage to get your tax burden down to a level which enables you to do the same level of R and D and other things that we see in other countries.

I think that's the starting point for it but we've also seen, as Roseanne alluded to the BEPS activity, which is taking place within the OECD. We've also seen other countries, however really taking important steps in this regard and some of our European competitors as well as Japan have undertaken changes in their tax codes which have altered the global playing field in the corporate tax space and made it, I think, more difficult to sustain the policies that the U.S has historically had. I will note, however that this is one of the most controversial areas in tax policy. When the panel held it's

hearings on international tax, we had distinguished and highly informed witnesses speaking on the international tax area who reached very different conclusions about the natural directions to go forward and in fact there was some divergence between the two proposals that we produced in terms of the ways they attacked the international corporate tax issues and I think sort of speaks to the complexity of sort of doing all this. The last thing, David, that I would point to is the revenue neutral mandate. And of course, this was something which was part of the way the Whitehouse launched this activity and the easiest way to do tax reform is when you're allowed to do a negative net revenue reform. The best time in the U.S. in the last two decades to have tried to do tax reform was probably in 2000, when we were running surpluses and there was money to be given away but I think it is important to remember that when we started this in 2005, it had only been about five years since the Federal Reserve had been having serious discussions about what we were going to do when we had completely run off the U.S. debt and we now have Federal surpluses that needed to be invested in perhaps corporate equities.

If one were starting this today, it only would have been about five years since we had corporate investments from the Federal government but they were not driven by the absence of government debt, they came rather from a period where we ran high deficits and ended up with a higher debt to GDP ratio going forward so I think the tough question today would be if you were starting de novo, would the goal be to say given long term deficit projections and the trajectory of debt that we see, is it worth trying to make the tax system simpler and fairer and more pro-growth in order to make it easier to raise what is likely to be a higher tax as a share GDP ratio in the coming decades and I think our panel never really took on that question because our instructions were clear: be revenue neutral but I think as a broader level of policy debate, that's something that would need to be teed up more today, I think, given the prospects we see and headwinds that come from the retirement of the baby boomers and other things like that for fiscal policy.

MR. WESSEL: Thank you. Mr. Lazear, I think there's a lot to respond to

and I wonder if you can focus your remarks on two assertions that have been made, some by Jason Furman and some by Jim Poterba. One is that there's a great deal of skepticism about how much of a growth kick can you get from tax reform and the other is, more Jason than Jim Poterba, but still a great deal more concern about the role of the tax code and the distributional effects of tax reform than I think were in the air in 2005. Do you see them the same way or differently?

MR. LAZEAR: Well let me start out with your first question because I think that's the most important and that is whether these tax plans could actually have a positive effect on growth so let me cite some numbers that are somewhat different from the one that Jason gave. The studies that I always like to look at are, first of all, the ones that we did. Bob Carol is sitting in this room and he scored some of these things and in addition to Bob Carol doing it during the time that I as in the government and also on the tax panel, before that there were people in the Clinton administration, Alan Auerbach being the most noteworthy who also looked at the kinds of things we talked about and Alan's numbers are actually much larger than ours so the growth kick that we estimated that we would get form our GIT was somewhere in the neighborhood of 5%, 5 percentage points of GDP permanent. The ones that Alan estimates from a similar kind of plan are closer to 9% so those are very large numbers. Now, whether you take those as credible or not is up to you but those are the kinds of numbers that pretty much everyone who has scored this, no matter which side of the political spectrum you're on, Alan obviously was not working for the Bush administration when came up with those kinds of numbers. I take those as pretty serious. The second point I'd make, in the same context is that -- let me give you the point of view from a labor economist. It makes Jim grimace a little bit.

MR. POTERBA: Well at least you're not masquerading as a public finance accountant.

MR. LAZEAR: Well that's what I was going to do. I was going to say that everything I ever learned from tax, I learned from Jim Poterba and he says that's fine, just don't tell anybody about that.

MR. POTERBA: So let me go back to labor economics and if you look at the data on labor productivity and wages and you can look at this and I've done this many times. Not only for the United States but also for a number of other countries. The relationship is very close, that is if you do a four year moving average, just smooth is, what you will see is that wage growth mirrors labor productivity growth almost perfectly in the United States, very closely in the UK, pretty closely in Canada, closely in France, closely in Italy, a little bit less closely in Germany so what that basically tells you is that if we don't have productivity growth, we're not going to get wage growth. That's pretty much the bottom line.

Now the question is how do you get productivity growth. We know that over the past few years, we've actually had lessened productivity growth, it's been a big problem and that's just another way of saying that GDP growth has been low but that's a problem and so the issue is, is there anything that the tax code can do to enhance productivity growth and I would go back into the kinds of numbers that we were talking about earlier because to my mind, the only way that you get productivity growth up is to increase the rates of return to capital and increase capital investment, increase technology investment and all of those fundamentally come down to the tax code or at least as one of the major ingredients if not the primary ingredient so I would certainly attribute it as being the primary ingredient so I would say that, and this comes to your second question, David about inequality because when I think about inequality, I say: "Well is this sort of old trickle down stuff?" Well unfortunately, it may be old trickle down stuff but the numbers pretty much support all trickle down stuff so if we think about the major transformations in the world, in terms of inequality, they're not in the United States. It's actually world inequality and it has actually gone way down and not way up and the reason world inequality has gone way down is because countries like China and India, China primarily have raised half a billion people out of poverty in about two decades. That's never happened in the history of humankind and you can ask why that happened but it's pretty hard to argue that China's move to a market based structure didn't have

something to do with it so I think Jason would probably disagree with me a little bit on that if not completely but I think the evidence is overwhelming when we look --

MR. POTERBA: The evidence is overwhelming that China got tax reform to get its growth up?

MR. LAZEAR: No, in fact that China moved to a system that placed less burden on the private sector. Now, one aspect of that is the tax code. It's not the only aspect of it. Obviously China did other things but India moved to reducing tariffs, that was tax related, Vietnam has done the same thing so if you look at the countries that have had the most rapid growth, and again I am talking about eliminating poverty. I am sure there are many people in this room who are wealthier than I am. That doesn't bother me, I don't think it's a social problem that I'm not as rich as everyone else in this world but I think it is a social problem that we have people in poverty and to me that is the primary goal and I can say that that's where the funding should be.

MR. POTERBA: And most people argue that there's a gap between what we've seen in productivity and what we've seen in compensation in the last several years; you don't take that seriously? You think it's temporary?

MR. LAZEAR: In fact I do and in fact one of the things you see is that part of this is business cycles. One of the things we know is that when you go into a recession, productivity growth tends to outstrip wage growth and there tends to be a catch up period. Whether we will catch up in this recovery remains to be seen. In fact, one of the problems is this has been a weak recovery, it doesn't seem to resemble prior recoveries so it's not quite as clear that the wage growth that has been reflected in prior recoveries will also be reflected in this one. I think that one remains to be seen but if you look at long term trends, both in this country and again I would cite the evidence that I gave you earlier, look across other countries, you do tend to see those things moving together.

MR. WESSEL: Thank you. Mr. Rossotti, you've been very patient. People who have been IRS commissioner have been talking for years about the virtues

of simplicity. Fred Goldberg is here and I think he once had a proposal where your government could basically fill in your tax return for you with all the information they have and then you could fix it and send it back.

The amount of talk about simplicity seems to be matched by increasing complexity and I wonder whether you think anybody really wants simplicity and are they willing to sacrifice any tax break they get in order to get it or is it just a lot of nonsense?

MR. ROSSOTTI: Well there is a lot of nonsense but let me just come at this from a little bit of a different angle. If you just look at my background and why I happen to be here on this panel. I have been working a little over 50 years and all but a few of those were in the private sector. I have been an entrepreneur, I've been in big companies, small companies, lots of different boards, I took a detour and became an IRS commissioner for five years and then later on --

MR. WESSEL: And you'll definitely go to heaven for that. I don't know if John Conston is going to make it but you'll definitely make it.

MR. ROSSOTTI: John's a good friend of mine. I did him beat him out in one way in that I got through five years without being impeached. And then I was on this panel and now I haven't done anything with taxes for five years except pay them and be in companies that pay them and so I kind of feel like somebody parachuting in a foreign country every once in a while and seeing a strange landscape because most of the people here and some of my fellow panelists spend their lives on taxes and know a lot more about the details than I do. So I think to answer your questions not only about simplicity but about the whole system, my perspective to think about sort of goes to a higher level which is the tax system as a whole, especially the tax system as a whole, especially the tax system but the whole system is one of the basic infrastructure components of our country. You can't function without it. We talk a lot about infrastructure being broken in terms of bridges and tunnels; I think it's the same thing with the tax code. I mean you can definitely argue any detail or that somebody would get more benefit for a certain set of credits than they would lose if you did tax reform. What I don't think you

capture, and this is on the business side by the way, very much as it is on the individual side, is the utter disrespect and confusion that exists about the tax system. I mean how good of a situation is it if you have a country where one of the basic things that everybody interacts with, they always say, think about the IRS. I had more people that we touched than any other institution in America. Nobody understands it, I mean I don't know whether anybody realizes how dysfunctional it is. It's not just simply the fact that it's complex and all the forms that are up there but think about how it actually functions.

I mean a lot of this discussion assumes, Mr. Furman, even the panelists, assume that the tax system functions the way it says on the forms and in the law; it doesn't. I mean, if you look at the burden, and I don't know what the numbers are, that is imposed on people for simply complying with the tax code. We did a model when I was at the IRS and I think they are still adapting it; I don't know but at the time, I think the numbers were, 10 to 12 years ago, 130 to 150 billion dollars a year. I don't know what they are now. That's just sheer time people spending complying. A lot of that was in small business and a lot of that was with individuals but then on top of that, and there's numbers around about how much of the tax that is on the books but is not paid or collected; that's a very big number. I don't know what it is today but it's in the hundreds of billions. I mean all of these things reflect what I think is somewhat playing out in my view in the political arena right now where you have certain political candidates basically trashing everything and saying the whole government doesn't work, the tax system doesn't work. Throw it all out and just do certain things.

Let me go to the business side because I've spent a lot of time, I've been in 17 corporate boards. The confusion at the corporate level is staggering. I think Mr. Furman is right in one sense in that he's saying that we have a stupid territorial system or whatever his term was but I took the opportunity with this corporate diversion just for the fun of it where you had some executives talking about how they had to invert in order to compete because the tax system was so difficult in the U.S. and I looked at one of the prominent ones and you can look in and read the 10Ks of the companies and find out

how much tax they're paying. In this particular case, there was no tax. He hadn't paid any tax in the U.S. for three years. I was actually on a board --

MR. WESSEL: Can I just interrupt you? Can everybody in the back hear him? I think we're having problem with the mic. Okay? Fine.

MR. ROSSOTTI: I was actually on a board myself where, in a fairly large company, where the CEO was talking about a dealt that he was thinking about that could have involved an inversion. It wasn't entirely driven by taxes but it was a big point in his discussion about why we ought to consider this. This is a company that not only hadn't paid taxes for three years in the United States but had never paid a dollar of federal tax in its entire history. How can people be that confused? I want to invert, even though I am not paying anything? Well because on paper, you have to report an effective tax rate which is an accounting concept which may or may not reflect how much you pay in the future and there are, as Mr. Furman correctly said, a lot of complexities about managing how you do international business even though you're not actually paying the tax in the U.S. on a current basis. So, all of this to me gets to the basic point that we have a system that is really functioning very very poorly, very very inefficiently, very complex, very poorly understood. I mean all the credits that people talk about in the individual code. From my experience as commissioner and my other experience, very few people actually know what drives their taxes. They get somebody to do it, or they get a thing and they get a refund and that's all there is too it.

MR. WESSEL: Right, so I get that --

MR. ROSSOTTI: So I mean none of this is good and I think the answer to get around it is you have to go to a higher level, you have to get to the point of saying: "Look, this is a system which reflects part of our --" and we did this, as Roseanne showed in a very simpler way would have basically given people a way to understand what was more going on in their system.

MR. WESSEL: Let me ask you a little bit on what's the great virtue of simplicity? Let me make a couple of points. First of all, technology has come a long way. I

do my taxes on TurboTax. I don't fill out all those forms, the thing does it for me and I know that I can get an information return from the IRS if we let them do it so we could, with the existing tax code, make it simpler if that was a priority so I have two questions, one is: I am not so sympathetic to your inversion argument so it sounded a little like you're saying we're making it really hard for businesses to dodge taxes and we need to make it easier so that they can understand how, with less work, they can avoid paying less taxes. I know that's not what you meant but there's a danger there of saying that simplicity is a virtue because it will allow companies to pay less taxes --

Mr. ROSSOTTI: No, pay more taxes.

MR. WESSEL: How much of a priority would you assign to simplicity over the things that we've been talking about making the tax system more pro-growth or making it more progressive?

MR. ROSSOTTI: Well I think, pro-growth, in part would be, if you did it the way we did it in this report, you would achieve that as well because you would have a broader base, you would have lower rates and rates are one of the things that influence people's investment decisions and other decisions so I think it wasn't that you'd be ignoring growth but I think it also ignores what the cost is of having this complex system. That's the point that I'm making and the cost is twofold. It's a very tangible cost. The burden is on people to actually comply with the system, taxes that are not collected which implies a burden on the people and also just sheer confusion on the system so those are very real things, those are not just theories and I think that in a very broad sense, the mysterious aspect of the tax system is one of the things that leads to the breakdown in confidence in the way that our whole government works.

MR. WESSEL: In Ben Bernanke's new book on the Fed, he says that one of his low points was when they did a public opinion survey and he discovered that there was less trust in the Federal Reserve than in the IRS. The Fed has since recovered so life is back to normal. Roseanne, we've had a couple of people mention inversions which of course is the process by which an American headquartered company becomes

a foreign headquartered company and cuts their taxes. I want to ask you two questions about that. One is why is there so much of that going on now? Is it that the incentives to it, you can save so much money and make it worth it, or is it one of these things where one company does it, another company sort of feels like we ought to think about it too, that's question 1 and secondly and I'm going to ask Senator Breaux this as well, we know that sometimes tax reform is driven by anecdote. The '86 tax reform, there were a number of great anecdotes and commercials. I think the Citizens for Tax Justice had this ad that said that the cleaning lady at GE pays less taxes than GE, the corporation and I wonder whether you think that the focus on inversions, which the Treasury Secretary has called unpatriotic is likely to be an action forcing event that gets business tax reform moving faster than it has so far?

MS. ALTSHULER: The first question is why so much now in terms of inversions. Well, there's talk now of inversions. It's harder to do it but there were some not so long ago and is it because there's so much money on the line or is it one company does it and everybody has to do it? I think it's a little bit of both. It's all driven by perceived competition and competition advantages. I think there was a time period in which companies were afraid about what might come out of Obama tax policy and that they better get out now because things are going to be worse for them and maybe they feel the same way now because a lot of companies, if we were to do the minimum tax proposal, I actually like a lot of it that the Obama administration put forward, we'd still be very different than the other countries and it would still be burdensome so I think there still is the fear. So it's a little bit of both, we're so out of line with other countries in terms of the corporate rate and now in terms of other advantages, maybe loose CFC rules, patent boxes, et cetera, so it's a little bit of everything. I don't know how satisfying that is as an answer. Is it going to be an action forcing event? I think it's given some steam but I think it's just going to be very difficult to go anywhere with international reform.

MR. WESSEL: Senator Breaux?

MR. BREAUX: Our law firm at Squire, Patton, Boggs actually has

handled two inversions in the last year and I will tell you that the driving force about why the company did it is because they were going to merge with a foreign based corporation to build products. That merger would have allowed them to have a worldwide distribution system, allowed them to expand their operations here in the U.S. as well as around the world because the company they were merging with already had a worldwide platform for the distribution of those products. So, it made sense from a standpoint of merging with that foreign company.

The foreign company made it very clear that they would not agree to the merger if the corporation was going to be headquartered in the United States because of the higher corporate tax rate so that merger would not have been possible, it would have not work, it would not have been able to expand some of their manufacturing operations in this country to serve the world wide group of customers they have as a result of the merger. They just would not have been able to do it because the foreign company would not have agreed to be located in the United States because of the higher tax rate so when we went to Congress and talked about it and gave members of Congress the reasons for it, we were faced with the arguments that were presented before, unpatriotic et cetera and you should leave the United States and you shouldn't do it and we're going to stop you. The makeup of the current Congress was not amenable to having legislation pass and stop those inversions. I think the real effect of those increased numbers of inversions was to recognize that we have to do something about the international tax system we have in this country, that companies were doing it, not because they didn't like the United States, they were loyal Americans but because the tax system allowed them only to complete these mergers if they were located in a foreign country.

MR. WESSEL: But we've had about 15 versions since 1982 and there was the first one. We've had about 20 since 2012. Dave Camp, the former chairman of the House of Ways and Means Committee had a bill that was actually not that far from what the Obama administration had and the political appetite for tackling that was somewhere between little and none. So do you see this as part of the change or are you

more optimistic like Paul Ryan.

MR. BREAUX: I think it gives rise to an increased reasoning and justification for overall tax reform.

MR. WESSEL: I see.

MR. BREAUX: And that would be part of the package. I don't think Congress is going to go out and piecemeal it and do one little piece of legislation preventing inversions but it could be part of overall tax reform. You've seen the writers in the Finance and Ways and Means Committee point to the fact that these inversions give them yet another reason why they should do tax reform in the not too distant future.

MR. WESSEL: Mr. Lazear, I wonder if I could take you back a bit to your time at the Whitehouse?

MR. LAZEAR: Is that necessary?

MR. WESSEL: Yes. I've noticed that candidates are more enthusiastic about tax reform than presidents and I wondered what lessons did you learn from the reluctance of not only the Congress but also the Bush administration to embrace this plan which you, after all, worked on and what advice would you give to the next generation facing that reality.

MR. LAZEAR: Yeah, that's a really good question. In fact, it's a question that I asked when I interviewed for the job. I came in and I thought that the reason these guys were interested in having me be the CEH there was that I had worked on a tax panel and could shepherd this thing through and of course, it was exactly the opposite and in fact, in the interview, I won't say who said it --

MR. WESSEL: Just give us the initials.

MR. LAZEAR: One of my interviewers said what if tax reform was not on the table, would you still be interested in the job and of course my comment was: "You guys don't know it but there's a financial crisis coming in two years and I'm good at that too" just kidding. I think that the serious answer to your question though is there are a number of things. First of all, my view is that almost anything of this magnitude has to be

led by the administration and not by Congress. It's almost impossible for Congress to put together any significant major reform, major change of any kind without the president's support and not only support but really leadership so the question is whether the administration has the capital to do it.

I think that tends to happen at the beginning of an administration rather than at the end of an administration particularly, and this is idiosyncratic to the time I was there, if you recall, President Bush had tried very hard to get social security reform in 2005 which didn't go anywhere and I think that most of his capital, at least for the second term, in terms of economic reform was spent on that and he wasn't willing to take another shot on tax reform beyond that so that, I think is an idiosyncrasy but the more general question that I think you asked, the more important one is how do you get these things going for the country as a whole and I want to go back to what Senator Breaux started out with at the beginning and that is it has to be something that everybody likes, so go back to 1986 tax reform, what made that happen? What was good about that?

What was good about that was that most people saw this, rightly or wrongly, as a rate cut. It was essentially a cut at the individual level and an increase at the corporate level and people said: "Oh yeah, that's good for me" and so I think when you package these things, it has to be done in a way that makes everybody feel that they're better. Now one of the things that we were burdened with, and again this is a detail but one of the things we were burdened with was we actually were not revenue neutral, we were revenue increasing because we had to pay for a fictitious AMT that was never collected which was a big deal. It actually meant that we had to raise a couple of hundred billion dollars a year which meant that we could not institute the kinds of rate cuts that were necessary so going forward, I would say, first of all, that what you need to do is that you need to couple anything on the business side and I pushed that very strongly in my initial comments with something on the personal side that makes individuals feel that they benefit from this directly and not just indirectly through some of the more trickle down kinds of aspects to it.

The other thing is that the system has to be seen as fair so the kinds of things that Charles worked on really is kind of the lone ranger in our committee. I think he was the guy that did most of that stuff is very important in terms of making the public feel that this is a system that is not only going to be good for them but it's also going to be a fair system and it's going to be an easy system and a transparent system. The other thing I would say is that it helps to have something new in the structure, not just the same old ideas. If there's something that people can say: "Oh that's kind of a cool idea" I think that's the catalyst that gets some of these things going.

I was just chatting with a buddy over the weekend and one of the things he suggested was: "Gee, why not let people buy tax reform for the future" so why not let companies buy out of tax burden, where you pay up front. Kind of like the Roth IRA but an efficient Roth IRA in the sense that you actually pay the present value but then in the margin, you have low tax rates going forward so that's -- it sounds gimmicky but it actually is not from an efficiency point of view it may actually have some benefit so things like that where you can say there's some cool things in this that we haven't thought about in the past, that might actually be a catalyst for getting these things going and again, I think it has to be done in the beginning so this is a 2017, 2018 kind of issue.

MR. WESSEL: It's interesting that the only tax reform we ever talk about is 1986.

MR. LAZEAR: Well we do, although Bush had quite significant tax reforms in the first couple of years of his administration that we forget about.

MR. WESSEL: When you cut rates so much, it's so much easier to get through.

MR. LAZEAR: And most of them are still in place so those tax cuts that were supposedly temporary, most of them became permanent so those were significant tax cuts.

MR. WESSEL: Jim Poterba, let me ask you a question and then we'll turn to the audience. How good a job do you think that public finance economists, people

who provide the intellectual foundation of things like tax reform are doing in explaining the pros and cons of our current system both to the politicians and the public?

MR. BREAUX: You're asking us that question in a room filled with economists?

MR. POTERBA: It's a great question and in fact if you listen for a second, I want to associate myself with what Eddie was saying a few minutes ago because it's actually very very simply and very very clear. Link back to this idea that what's ultimately going to matter for long term wage growth is productivity growth and my take that today, even more so than 2005, policies that are pro-growth are really something that we should be trying to emphasize. What, if some very broad level will achieve that? It's lowering the wedge between the pre-tax return to capital or labor and the after tax return. The touchstone of all of this and one can then quibble on exactly what's in a particular simulation models and I think some of us would be more inclined to think there are potentially big effects here than what some of the models might suggest but the essence of trying to do this is the broadening the base, lowering the rates and make the wedges between the pre-tax and the after tax smaller as a way of trying to move towards a growth scenario. That's a very simple concept to explain and I think a lot of the time, we get a little bit lost in the details of particular proposals. Now, you heard earlier today a very interesting conversation about health insurance examples and whether expenditures on health are an intermediate good toward producing a final consumption bundle that someone is interested in and those are topics that one can actually debate in the nuts and bolts of the academic literature but at some broad base, trying to convey what I think Eddie was trying to lay out which is what are the basic principles here that you should be driving toward and how should that be trying to integrate into the reform discussion is very important, I think we often lose that.

The second thing I would say, David, related to this is these wedges between the before tax and the after tax returns or the before tax and after tax wages, the often depend on both the corporate and the individual side and the payroll tax as well

potentially and the U.S. so there's a real advantage when you're thinking about tax reform of being able to come at this topic holistically as opposed to piecemeal which is not to say that there aren't piecemeal reforms one can undertake which are, in fact, steps in the right direction and that maybe what we're trying to see as we try to tackle some of these issues going forward but one of the beauties of what the panel was able to do in 2005 was to think about both the corporate and the person tax together and therefore in considering changing say the tax burden on new investments on the corporate side to also understand what that was going to do as it filtered through to the ultimate investors and thought about the total tax burden that (inaudible) and I think that part, which some of the more visionary members of both the Congress and the administration when they tackled these problems do recognize that it really helps to try to have a big picture view here. That's really important in trying to think about the way to go forward with the tax system because you can often end up with unintended consequences of fixing something here which ends up with impacts of the net effects of the system that you might not have expected but I think the key thing which is as important today as it was in 2005 is this need to try to find policies which will ultimately lead to a higher growth over the long term and that's likely to come from trying to narrow some of these wages.

MR. WESSEL: Thank you. All right, let's take some questions. I repeat Howard's admonition that we have a lot of people so tell us who you are, wait for the mic and ask a question and I think we'll take a couple. Why don't we start down here with Len Burman?

MR. BURMAN: Len Burman, Director of the Tax Policy Center. I actually want to push back a little bit with what Jim said about reducing wedges in both labor and capital and it seems to me that they're not really symmetric, that the distortions from taxing labor, assuming you can identify the boundaries between the two are much smaller than distortions from taxing capital. Particularly, if you look at labor at the top, corporate CEOs, entertainers, others who are enormously highly compensated, it's hard to imagine they'd work a little bit less if you raised their taxes. They might join one fewer

corporate board or give one less speech but the loss to society is probably not that great from that.

So the thing was intriguing about GIT plan was that it did attempt to tax capital at a lower rate than labor and I wonder if there's potential for growth enhancement, while also maintaining some progressivity in raising revenue by actually taxing labor at a higher rate. Either directly or by having a value added tax as a complement, something you rolled out on political grounds but value added tax and a lower tax rate on capital.

MR. POTERBA: I share your sense that the capital tax distortions are likely to be larger than the labor tax distortions and a number of the studies in this area seem to point to that direction although as I said, I think the smoking gun that says here's the capital tax cut and here's the growth is still remarkably elusive in this area. You mentioned the VAT and I do think that's something that deserves very much to be in the mix as we think about tax policy reforms. One of the touchstones in reforms that this panel talked about was trying to move it toward a consumption tax base. The VAT is certainly a way of doing that. The VAT as a swap for corporate tax revenue might be one way to think about this and those of you who are in the public finance expertise group, there are many ways to get toward a VAT within something that looks an awful lot like a corporate income tax, collecting it on corporations and moving toward expensing and a variety of steps like that so there's a lot to be said about trying to explore that path and to come back to David's very first question, that maybe that is a more attractive path today than it looked in 2005 as we go forward. The one very important thing to recognize is that when we have discussions, as are emerging now in the political campaigns about looking toward other countries that have much higher shares of taxes to GDP, those countries tend to raise that with broad based value added taxes which by in large fall on the broad middle classes in those countries. It is not by having extremely progressive tax schedules and that is something which probably should be informative as we think of our own country's tax reforms.

MR. WESSEL: Mr. Lazear?

MR. LAZEAR: Yeah, just to add to that, I certainly agree with you as well that the capital taxation is the worst and the most distortionary simply because it's the most mobile factor, that the obvious point. On the labor side, the one thing that I would say, usually when people rank these, they think of capital taxation as worst, labor is second, taxes on direct consumption being third and taxes on land as being the least pernicious. The reason that labor gets number two is not so much the intensive margin on ours but it's occupational choice. Basically it's saying if you kill off the returns to investment in human capital, you're going to have less investments so that's usually where the margin is. It's not so much on once you're already a corporate lawyer, you're going to work fewer hours. I think that's not the argument that most people would make.

MR. WESSEL: I just want to note that I think if Josh Barrow has it right in the Times today, Ted Cruz is proposing a 16% VAT of sorts with a 10% income tax on top of it so it is quietly re-entering the debate but let's take two or three questions. Kim Reuben and then we'll let some of the panelists respond.

MS. REUBEN: Hi, Kim Reuben, Tax Policy Center. Thank you for coming back together. Something that Eddie said was interesting to me. Can you think a little bit about what the but for would have been if instead of doing this in 2005, you all were asked to do this in 2001 or 2003? So before you had all the Bush tax cuts put into place, right? We would have had a different kind of distribution in place and also have really different world in terms of what the level of taxation was. Do you think if it had been done then, that you could have actually had more chance of doing something that actually looked like simplification and how that changed what you proposed at all?

MR. WESSEL: Thank you, another question?

MR. DZEKO: I am --

MR. WESSEL: It's better if you stand up because then we can see you and so can the camera.

MR. DZEKO: Larry Dzeko. To Mr. Lazear's point about the social

security not going anywhere. I think it's because he wanted to privatize it and heaven forbid he had done that, we'd have a lot more poor people today given the recession, number one, but my question is regarding trickle down. It's proven for 35 years, I don't understand why we are still clinging to this notion that if we don't raise taxes on the rich, that they're going to produce more. It just doesn't seem to make sense and I'd just like a better clarification.

MR. WESSEL: Can we take one more before we ask them to answer? My God, okay. Mr. Lazear, would it have been different if we did tax reform in the early part of the Bush presidency?

MR. LAZEAR: Well I'll just come back to what I mentioned earlier. President Bush did do some tax reform, did do some tax changes and they were quite significant. I think that your point though is a good one and had that been integrated with kind of a more comprehensive plan rather than thinking of it as a stimulus so the way it was pushed at that time, remember we had a recession, so starting 2001, basically right at the beginning, we had a recession and the question was how do we get out of that. When I say we, these are my predecessors and not myself obviously and their argument was essentially do tax cuts in order to get you out of the recession, that was the approach tried. That's probably the wrong reason for doing a tax cut. I mean, I think, had this panel been constituted at that point and had we been able to talk about more efficient tax reform, it certainly couldn't have been worse. I mean it didn't go anywhere anyway so at least it might have had some shot. Whether it would have been sufficient and whether you could have done it then, I don't know. Again, I would defer to Senator Breaux in terms of his political judgment on this but I do think that would be --

MR. WESSEL: Senator Breaux?

MR.BREAUX: It wouldn't have made a difference because the pay fors that we had were still very controversial and the people in control of the various committees with the lack of administration support wasn't going to be adopted. I mean I think economists are critically important in framing a proper, correct, reasonable, and

balanced tax plan but they're not the best people to sell it. If I had to do it all over again, after we completed our recommendations with all the wise men and women and staff that we had putting it together, I would have hired a PR firm to try and sell it because a vast number of people in this country think they pay too much in taxes, that the tax code is full of all kinds of exemptions and incentives that if you're wealthy and can hire tax attorneys and lobbyists, that you're going to pay a lot less in taxes and they're paying, sitting back there in middle America so you've got to be able to have a good plan that thinking people and economists put together but you've got to have the ability to sell it to many members of Congress that would not recognize the difference between a balance sheet and a tax return. I mean that's what your facing, folks. You're facing trying to sell these new innovative ideas to many members of Congress who are worried about the next election and are out in the middle of nowhere and they're saying: "How am I going to increase taxes on housing and healthcare and state and local taxes and go back to my congressional district and try and sell it?"

So you've got to not only have a great package, you've got to have the ability to sell it to many members of Congress who are not into the weeds as much as the people on our panel and all of you here today. You've got to keep it simple, stupid and it ain't easy when you're talking about the tax code.

MR. WESSEL: Well, let me ask you one thing. You said at the beginning that one of the reasons your panel works so well was because no one was running for re-election.

MR.BREAUX: Absolutely.

MR. WESSEL: But as a result, there was no buy in by the -- there's nobody from Congress who had buy in so do you think it would have been better if there had been have been some sort of second panel that had members of Congress in it or something?

MR.BREAUX: Not really, I think that we were able to come up with some very tough political decisions and recommendations. Those things were not easy

and I doubt very seriously that you would have had enough members of Congress making those same recommendations. Now I pointed out the political article earlier that the new speaker of the house, on those three areas said some very positive things in support of it. I think that's incredibly important. I mean he's the former Chairman of the Ways and Means Committee, he's a republican and he's the speaker of the house and that's real leadership if he can continue to do that.

MR. WESSEL: So if you were giving advice to the next President, no matter who he or she may be, you would suggest that there be a plan, that the administration lead with a plan and it would have a marketing strategy explain to the Congress and the people why it's a good idea.

MR.BREAUX: Yeah I talked to Ben Carson yesterday. That's a joke.

MR. WESSEL: I was waiting for the punch line.

MR.BREAUX: I told him selling his plan is going to be a little difficult.

MR. WESSEL: But God is on his side, Senator.

MR.BREAUX: He's going to need more than God. Anyway, I think that you've got to have a good plan and the ability to sell the good plan. I mean you can have the best plan devised by wise men and women in this country and it's not going to go anywhere in Congress because we can't simplify it enough to get that average member of Congress to be willing to be supportive of it when he starts getting five or ten letters from his district saying I don't like it and that's the public relations type of ingredient that I think sometimes, we who put these things together, do not visualize or understand the necessity of having that part of the package.

MR. WESSEL: Jim Poterba?

MR. POTERBA: Yeah, just two things on Kim's question about rolling back the clock to 2000 or 2001. I think that if the panel had been given it's commission in January of 2001, starting from the tax system in place in 2000 that one thing that would have happened is the pay for for the AMT would have been smaller at that point because

we were starting from a different regular income tax schedule and as several of the panelists have said, that was really a millstone around the panel's neck because there was this large amount of revenue that in some sense had to be collected and it was above what was then in the law and above what actually played out because we always had year after year extensions of the AMT so the thing that we were supposed to fix was ex post fixed by small tweaks rather than with a comprehensive thing but I think that would have made the pay for smaller but I, of course, defer on the politics of this to Senator Breaux but there certainly would have been the possibility of before the 2001 and 2003 tax changes which were reformed in a sense, for example, trying to integrate the personal and the corporate on the taxation of dividends was an important step toward a tax reform which has been discussed for a very long time but there would have been a way to end up with a distribution table that combined some of the rate cuts with some of the other structural changes that we talked about. For example, you could have capped the mortgage interest deduction at a lower level but if you were also able to lower marginal tax rates in the course of doing that, without anything else and lose revenue in the process, you could have made that more attractive and more palatable for some of the constituencies in the high state tax, high house price states in a way that I think would have given it at least a fighting chance. It may well be that absent something that really pushed it over the goal line, it never would have gotten there anyway but I do think that the best time to think about doing tax reform, structurally, is when you're also prepared to give up revenue because it makes it much easier to compensate the losers who are going to have something they were attached to lost in the process of the reform.

MR. WESSEL: Thank you. When Bill Galen and Roseanne asked me to moderate this panel, I said yes because I like both of them but the idea about having a bunch of people reminisce at a ten year old tax reform plan that went nowhere did not strike me as the most exciting moment of my week. I want to thank the panelists for making this both clear and interesting and for unlike Jason, not referring to either section 179 or section 199 of the Tax Code. So

please join me in thanking them and Roseanne and the Tax Policy Center for bringing this together.

My colleagues at Brookings would appreciate it if you looked at your feet and if you see papers or coffee cops there, if you pick them up and brought them to the end and we'll see you in 10 years when we are celebrating real tax reform.

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