

BROOKINGS CAFETERIA PODCAST
"On tax day, what are the experts saying?"
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P R O C E E D I N G S

MR. DEWS: Welcome to the Brookings Cafeteria, a podcast about ideas and the experts who have them. I'm Fred Dews. The tax filing deadline in the U.S. is Tuesday, April 17th. This is because April 15th falls on a Sunday, and April 16 is Emancipation Day, a legal holiday in the District of Columbia, marking the day in 1862 that enslaved people in D.C. were freed.

In today's episode, three Brookings experts offer their thoughts on tax policy. Bill Gale, Senior Fellow and Co-Director of the Tax Policy Center, looks at why taxes are so complicated, but suggests that maybe that's a good thing.

Vanessa Williamson, Fellow in Governance Studies and author of the book *Read My Lips: Why Americans Are Proud to Pay Taxes*, discusses her research on the connection that many Americans make between paying taxes and citizenship.

And, finally, Senior Fellow Henry Aaron explains why the December 2017 tax cuts and the recent spending increases weaken the ability of policymakers to deal with the inevitable next recession.

After the taxes discussion, Andre Perry delivers a new Metro Lens segment on the evidence that racism continues to impede the social and economic progress of African-Americans and how racism benefits white people, especially white men.

You can follow the Brookings Podcast Network on Twitter (@policypodcasts) to get the latest information about all of our shows. And, now, on with taxes.

MR. GALE: I'm Bill Gale, a Senior Fellow in the Economic Studies program at the Brookings Institution and the co-director of the Tax Policy Center. As tax filing deadlines approach, tens of millions of people are filling out their income tax returns. Nobody loves paying taxes, but the chief thing that many people complain about with respect to the

income tax is not how much they pay, it's how complicated the tax forms are.

So, let's talk about tax simplification. The first question is, what makes taxes complicated for people. You might think that tax complexity is only an issue for high-income households, but that's not the case. For low-income households, headaches can arise from issues regarding filing status, abandoned spouses, dependency tests, the child and dependent care tax credits, and the earned-income tax credit.

For people with higher-income, complexity arises in itemizing deductions, the treatment of capital income, particularly capital gains, -- if you've ever filled out a capital gains worksheet, you know what I mean -- and the alternative minimum tax.

For business owners, the law just got much, much more complicated, and they already had issues relating to inventory depreciation and distinguishing various expenses as personal versus company expenses.

For big corporations, dealing with tax complexity is a job of entire sections of the company, yet the costs can easily be overblown or distorted. For many people, the tax system is not that complicated. About 40 percent of people file simplified 1040A or 1040EZ forms, and about 18 percent filed a 1040 but have no itemized deductions or no business income.

Many people go to tax preparers to expedite their refunds or because they prefer to spend their time doing things other than preparing taxes. One study, for example, found that while average taxpayer spent 27 hours filing income tax returns and taking care of related activities, 30 percent of taxpayers spent less than 5 hours. So, there's great heterogeneity in terms of how complicated the system is.

The second question is, since virtually everyone agrees that taxes should be easy to understand, easy to administer, and easy to enforce, why are taxes so complicated? The answer is that people also agree about other things. They think taxes

should be fair, they think they should encourage economic prosperity, they think taxes should raise sufficient revenue to finance government spending, and so on and so forth.

Many people also think tax incentives should be used to pursue social or economic policies for low-income households, for housing, health, the environment, and business activity. For reasons of fairness, most tax systems tailor tax liability to depend on individual characteristics. This adds to the complication of the income tax system.

It requires tracing income from the business sector to individuals, it requires reporting and documenting individual characteristics, such as marital status, dependent, each person's level and composition of income and spending, and so on. And, it requires that tax rates vary with individual characteristics which creates incentives to shift income to other people with lower income, such as children, or to shift income to other time periods when income might be lower.

Complexity also comes from using the tax system to house social initiatives that subsidize what Congress and a significant portion of the population consider to be important activities -- housing, charitable contributions, health insurance, higher education, child care, state and local governments, retirement saving, entrepreneurial activity, and so on.

Any time a provision for special treatment arises, it must be limited. If the child-care credit, for example, is not intended to subsidize ski lessons in Aspen, some line has to be put down on paper concerning what is allowed and what's not. That line will then be attacked by tax preparers and tax planners. So, the line then becomes more complicated. The rules become more complicated over time, as people find more ways to avoid the tax.

A final reason, -- let's face it -- taxpayers like complexity that reduces their taxes. It's just complicated provisions that raise their tax payments that annoys people. Thus, people will complain about new filing requirements, but very of them will volunteer to

give up the associated tax cuts or ignore the tax savings they could get.

The last question is not really a question, it's more a perspective. It's to ask whether maybe the tax system is not actually that complicated. I know this is heresy, but, hear me out. Economics always wants you to ask the question -- Compared to what? And, if you think about the right comparison, you'll see that there's one way in that the income tax, in fact, simplifies things.

Given all the deductions and subsidies we have, the Form 1040 is basically one-stop shopping. If we're going to have all the various subsidies for particular activities, like mortgage interest and child care, it is more efficient and time saving to have them all on one form, even if that form is complicated, than it is to have a simple tax form but then have everyone have to fill out a special new form for each subsidy.

Imagine if you had to go to HUD to get your mortgage interest deduction, you had to go to a different agency to get your charitable contribution deduction, you had to go to the Department of Health and Human Services to get your child credit, and so on. The goal should be to simplify people's overall interactions with the government as a whole, not just the filing requirements of the income tax in itself.

In that regard, having a complex income tax saves people time, relative to having each item administered separately. I know that doesn't make filling out forms any easier, but it should be a consolation. It could be a whole lot worse.

MS. WILLIAMSON: My name is Vanessa Williamson. I'm a fellow in Governance Studies at the Brookings Institution. This Tax Day, many Americans are completing an important patriotic obligation in filing their federal income taxes. What might surprise you is how many Americans actually see taxpaying in this way, as a commitment to their community and a contribution to civic society.

A common survey question is whether it's every American's civic duty to pay

their fair share of taxes. Every year, 9 in 10 Americans agree, and only about 5 percent of the public disagrees. To give you a point of reference, about 6 percent of Americans say the moon landing was faked. So, this is about as close to consensus as Americans ever get. And, it's a view that even in these polarized political times Republicans and Democrats share.

The idea of taxpaying is a political act, dates back to our country's founding, and the claim that taxation gives one the right to representation. It's also a sentiment that many disenfranchised groups, including women, African-Americans, and recently undocumented immigrants, have used to advocate for a more inclusive citizenship.

One of the subjects of my research is how the income tax filing moment might be used to encourage civic participation. So, this year, we're running a field experiment at seven sites, in Texas and Ohio, to test whether tax time is a good moment to remind people to register to vote or to update their voter registration. We are partnering with nonprofit organizations that provide free tax preparation services to low-income taxpayers to ask those taxpayers if they'd like to update their voter registration or get registered for the first time.

Now, there are some good reasons to think this might work. An annual reminder to register will help people who move frequently stay on the voter rolls. And, when you're already filling out your tax forms, the half-page voter registration form is a snap.

In addition, for low-income families, tax season can provide a critical and financial benefit in the form of the earned-income tax credit and the child tax credit. For a lot of families, this makes the difference between being able to pay off their winter heating bills or falling into debt. So, whether tax time makes you happy you got a refund or angry that you owe money, you're certainly thinking about the way that government matters for you in your daily life. And, maybe that sentiment can help spur political interest and engagement for the

rest of the year.

The other advantage of a tax-time registration is that it gets you on the voter rolls earlier, which means you're much more likely to be contacted by campaigns, by get-out-the-vote efforts and other seeking to make sure that you don't just register but you actually turn out on Election Day.

We've already had over 5,000 people participate in our experiment, and I'm hopeful about its results. With luck, we'll demonstrate an effective new way to remind Americans that we don't just pay for government, we own it together.

MR. AARON: I'm Henry Aaron, Senior Fellow in Economic Studies at the Brookings Institution. When Congress passed tax legislation last December, commentators debated whether the bill was fair and whether it would be good for economic growth. When Congress struck a budget deal in February, members of Congress congratulated themselves for avoiding the government shutdown.

Some observers pointed to the risk that cutting taxes and raising spending could cause an economy already near full employment to overheat but when unremarked was a frightening fact. These two actions stripped away the last effective means to fight the next recession.

To be sure, the economy looks strong today, but the current expansion is 9 years old. Now, expansions don't die of old age, but we know that another recession will come. We just don't know when. And, if it comes anytime soon, there's going to be very little that policy makers can do to fight it.

Lowering interest rates is one way to fight a recession. But the Federal Reserve drove the interest rate it controls to zero during the last recession and has kept rates low since then. It's trying now, gradually, to raise rates, but it hasn't gotten far yet, and that means that the capacity of the Federal Reserve to fight a recession is much reduced.

The situation with respect to fiscal policy is even more disturbing. When Congress cut taxes and boosted spending, it reduced for many years to come the ability to use discretionary tax cuts or spending increases to fight a recession.

Back in 2007, -- that's when the last recession began -- the federal debt was half as large as it is today relative to GDP. Back then, Congress had no objective cause to fear that increasing spending or cutting taxes to fight the recession would push debt to unsustainable levels. Even so, members of Congress were so leery of debt, that the Obama administration asked for a weaker anti-recession program than it thought desirable, and as soon as recovery began, a sort of anti-deficit mania took hold, fiscal stimulus ended, and a recovery slowed to a tortured crawl.

Just this week, the Congressional Budget Office warned that annual deficits will soon exceed \$1 trillion, and the debt would surge past 100 percent of GDP. Should a recession hit, automatic drops in tax collections and increased spending triggered by higher unemployment would send the deficit to \$2 trillion a year or more. In that condition, fears that rising debt will threaten economic stability, justified or not, would hamper aggressive steps to fight rising unemployment and depressed output.

Now, what this means is that the December 2017 tax cuts and the February 2018 spending increases rashly weakened the already tenuous capacity of policy makers to deal with the next recession. What this means, I think, is that the tax cuts should be rescinded. They benefit the wealthy few who've enjoyed the lion's share of growth in pretax incomes, but they also mean that when the next recession hits, the rest of us, rich and poor alike, will suffer more unemployment for longer than necessary, and that we would lose many trillions of dollars of income we should not have to lose.

The recent tax cuts were shortsighted and reckless. It is hard to believe that some members of Congress and President Trump are actually bragging about them.

MR. DEWS: You can find a lot more research and commentary about taxes and fiscal policy on our website. If you have any feedback for these guests or have questions for other experts, send me an email -- bcp@brookings.edu. And, now, Metro Lens.

MR PERRY: Hi, I'm Andre Perry, David M. Rubenstein Fellow for the Metropolitan Policy Program here at Brookings. The evidence that racism impedes black people's social and economic progress keeps growing and growing, but discrimination persists. That's because proving that racism is a cause of racial disparities is only part of the solution. Showing how racism benefits white people, and white men in particular, is the evidence black people can take to the court and the bank.

New important research out of Stanford, Harvard, and the U.S. Census Bureau shows that even wealthy black men who live in tony neighborhoods are more likely to have sons who will grow up to be poor than their white male counterparts. The researchers controlled for many factors, including family socioeconomic background, neighborhood, education, and wealth, among others, and still disparities existed.

The New York Times created a stunning data visualization based on a study that showed how black children in wealthy families become adults in lower-income brackets. Many are calling this research groundbreaking. One New York Times columnist went so far as to say the work puts an end to the class versus race debate. Actually, the Black Lives Matter movement put an end to that discussion. But those who don't believe that blackness led to the killings of unarmed Trayvon Martin and Tamir Rice are still mired in debate.

Black people, including black academics, have long accepted research that shows racism is a causal factor in the social and economic outcomes of black people. It has been the irrationality of racism and the elitism of the academy that have precluded conservatives and liberals alike from accepting the works of William Darity, Julianne

Malveaux, William Julius Wilson, Ta-Nehisi Coats, and Cornel West who wrote the book *Race Matters*.

We also know that race matters through our lived experience. The depressing number of educated and wealthy black women who died during childbirth is hard proof that race matters. According to the Center for Disease Control, black mothers in the U.S. die at three to four times the rate of white mothers. Black women can't buy or educate their way toward better health outcomes.

Black folks whose lives and deaths illustrate those shocking gaps don't need further convincing that something besides class is at play. What we do need more evidence of, however, is how racism works for white people. The charts presented in the reporting of the New York Times story also shows white men's elevated position in society. Yet the reporting on the study inexplicably placed the scrutiny on black men.

Even though sometimes the intention is good, I fear the spotlight on racial disparities that show blacks on the lower end ultimately helps widen the gap between black people and their peers of other races. When we see black people trailing whites, we see black problems needing assistance. As a consequence, we almost guarantee that no one will want to invest in black people or institutions. After all, who invests in problems or deficits when investing in solutions is much more attractive?

Look at the field of education which is littered with white saviors fixing black children. If investments that can be used to create wealth, build better schools, and develop training programs go to other people who we assume have the capacity to fix black people, then black people never get developed. Likewise, the focus on differences ends up perpetuating a line of research that ultimately leads to victim blaming, and we have enough of that.

Think about the rhetoric around single mothers causing poverty. Believe it or

not, there are still people who continue to blame poor women for having too many children and not getting married. In a Washing Post column last month, Robert Samuelson wrote, "When there's only one parent with a meager income, the burdens mount and feed on themselves." He continued, "That's one reason the growth of single-parent households is rightly regarded as a cause of poverty." Samuelson and others could focus on trying to fix systemic problems of unequal pay, tax policies that favor the rich, and discrimination in housing and employment. You know, the factors that determine how much money people make.

Since 1965, when Assistant Secretary of Labor, Daniel Patrick Moynihan published the Moynihan Report, researchers and journalists have continued framing poverty mainly as a product of mothers' individual choices around how many babies they have and who they marry. Moynihan also offered a robust structural analysis of the economic and social conditions that helped shape black family structures. However, he set a dangerous example by identifying the main problem as black people not living up to white, middle-class ideals. It's a mold that researchers of black men willfully maintain to this day.

When you fault single parenthood, you inevitably go down a path of chastising women culture and individual behavior. Likewise, the focus on negative outcomes among black men has led to programs to instill grid charter schools that sweat the small stuff, i.e., suspend and expel children, and other initiatives that dismiss the effects of housing and employment discrimination, access to capital, and the prison industrial complex. All the while, white families are privileged.

Of all the reactions to the amazing charts in the Times article, you didn't hear much about the exceptional mobility of white men. It's time we shifted the scrutiny from the plight of black people to white privilege. Just the cell phone cameras have shifted the national debate by capturing unarmed black folk being shot by the police for being black. We

need research to reveal how the system privileges white people at the expense of black.

This is the evidence or legal and policy nerds could use to address structural inequity. Proof that racism matters may be illuminating for those who've had the luxury of believing that class explains all outcomes, but it's not that empowering for black people to constantly be portrayed as at-risk or as an endangered species.

We have to keep a spotlight on the systems that oppress us, not on how they break down our brethren. We need to turn our gaze to how the system uplifts white men unfairly and at our expense. Don't show me how bad black men are doing. Show me how to hold people who benefit from racism accountable.

MR. DEWS: Andre Perry's research is on our website, and you can listen to more Metro Lens commentaries on our SoundCloud channel. The music you've heard in many of the recent episodes was composed by our intern, Steven Lee, in collaboration with Gaston Reboredo. Steven is a student at American University here in Washington and is the founder of J. Lee Records, an independent music organization. Learn more at JLeeRecords.com. That's J-L-E-E Records.com. Thank you, Steven, for contributing your time and talents to the Brookings Podcast Network this semester. Good luck to you.

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