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THE TAX CUTS AND JOBS ACT OF 2017: LESSONS LEARNED AND THE DEBATE AHEAD

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WELCOMING REMARKS:

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PRESENTATION 1:

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PRESENTATION 2:

JON M. BAKIJA
Chair of Economics and W. Van Alan Clark '41 Third Century Professor in the Social Sciences, Williams College

PRESENTATION 3:

ERIC ZWICK
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PRESENTATION 5:

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PANEL DISCUSSION:

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CLOSING REMARKS:

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GORDON: Good morning. I'm Tracy Gordon, co-director and acting Robert C. Pozen director of the Urban-Brookings Tax Policy Center. On behalf of TPC and the Hutchins Center for Fiscal and Monetary Policy, welcome to the Tax Cuts and Jobs Act of 2017: Lessons Learned and the Debate Ahead. Before I get started, a little bit of background. Next year, we are headed into what some have called the 'Super Bowl of Tax.' And the reason that they're saying that is that many provisions of the TCJA are scheduled to expire under current law. So what is the TCJA? It is the most sweeping tax legislation in decades, making major changes to both the individual and the corporate side of income taxation. On the individual side, it cut tax rates notably from 39.6 to 37% at the top.

It expanded the Child Tax Credit and it eliminated personal exemptions. It nearly doubled the standard deduction and got rid of many popular itemized deductions like payments for mortgage interest or state and local taxes. It raises Alternative Minimum Tax Exemption and phaseout levels so that it applied to vastly fewer people. It doubled the Estate Tax Exemption and it created a new program called Opportunity Zones with the intent to spur investment in previously underserved areas. On the corporate side, it reduced the top rate from 35 to 21% and also allowed businesses to deduct the full cost of equipment investment in the year it was made, or 100% bonus depreciation. It limited deductions for net business interest and limited the deduction for net operating losses and also required amortizing the research and experimentation exemption excuse me, deduction over time rather than allowing it to take place immediately and it repealed the domestic production deduction, it changed international tax rules, creating incentives to no longer shift profits overseas and to locate both profits and real economic activity in the United States.

For businesses that are organized as pass through or sole proprietorships, partnerships, limited liability corporations, basically where individuals are taxed on their share of the profits. It created a new 20% deduction on qualified business income. So why are we talking about it today? Because of the way it was passed, using a budget process known as reconciliation, many of its provisions, all the ones that are highlighted here, are scheduled to expire in 2025, and many have already started to phase down or kick in already. So why is this hard? Well, comprehensive tax legislation is always hard. That's why it happens so rarely.

The last time that we had legislation on this scale was the Tax Reform Act of 1986. The fiscal environment is also a lot harder now than it was in 2017. CBO projects that federal debt held by the public will reach 116% of GDP in fiscal year 2034, and that is the highest level in U.S. history. The CBO also projects that the cost of extending TCJA's expiring provisions permanently would be about $4 trillion. The political environment may be harder, too. So although the TCJA passed largely along partisan lines, it reflected certain areas of bipartisan agreement that had been emerging for years and years, in particular the 2012 Obama Tax Framework and the 2014 Count Plan. Both included a global minimum tax, which I'm sure Kim will talk about in her presentation. Also earlier this year, there was a bipartisan deal to extend expiring business tax provisions that were on the previous slide and also expand the child tax credit.

That deal made it through the House, but got stuck in the Senate, even though the major pay for that was identified was a program widely acknowledged to be replete with fraud. The policy itself is also complex. So at present, former President Trump has said that he would extend all the expiring provisions of TCJA and Vice President Harris, following President Biden has said that she would keep the tax cuts only for those households earning less than $400,000 a year. That's a hard thing to do. The American Taxpayer Relief Act of 2012 was faced with a similar issue of expiring tax cuts from 2001 in 2003, but those were just rate cuts at the top, so it was very easy to dial them up or down. TCJA, in contrast, was a sweeping piece of legislation with interlocking provisions like the Expanded Child Tax Credit on the one hand, the elimination of personal exemptions, on the other, the allowance of full expensing and the limitation of the net business interest deduction. And so addressing all of those and holding certain taxpayers harmless is a lot more complicated. But there's hope.

The analytical community here in DC and across the country is coming together to provide data, insights and analysis to support this debate. And this special issue of the Journal of Economic Perspectives is a great example. So the papers are available online. We are lucky to be joined with many of the authors who contributed today. We'll hear from Bill Gale, who is a fellow in Economic Studies and my co-director of the Tax Policy Center here on the Brookings side. John Bakija, who's a professor at Williams College. Eric Zwick, who is a professor at University of Chicago. Kim Clausing, professor at UCLA, and Naomi Feldman. She's a professor at Hebrew University in Jerusalem.

So a little bit of the format: we'll have five presentations. Each speaker will speak for about ten minutes. That'll be followed by a panel discussion led by David Wessel. We'll hold questions and comments until then. Tim Taylor, who's managing editor of the JEP, will provide closing remarks. And please remember that this event is being live-streamed and will be available online afterwards. Thank you so much for joining us, and looking forward to the discussion.

GALE: All right. Hi. Good morning. Thank you all for being here. I'd like to just start by thanking Tim Taylor and the JEP editorial team for having us all as a part of their superb publication. And it was an honor to participate. And I'm excited about this event this this morning. This paper is coauthored with Jeff Hoopes and Kyle Pomerleau. And we take kind of an overview perspective of the of the Act. And so we touch on a lot of different issues or not in as much depth as the papers that focus more on one particular issue. But I think having looked at all this, I try to divide it into four things. We think we know three things we're not sure about and what the experts think. All right.

The four things we think we know are follows: first, marginal tax rates fell. That may seem obvious, but I mean, effective marginal tax rates fell. They fell across the board. And what's less obvious, maybe, is that the dispersion of marginal tax rates across assets also fell. So all of the distortions relating to legal ownership, to asset type, to financing methods, particularly financing methods, those distortions fell. And those changes should lead to a more efficient economy. The second thing we know is that some simplification happened on the individual side. The changes that Tracy mentioned reduce the number of itemized people who itemize from 31% of returns in 2017 to 11% of returns in 2018. And it stayed down there since. This is mainly the increase in the standard deduction. And the AMT has almost disappeared.

In 2017, 55% of people with income above 200,000 had to deal with the AMT. In 2018, only 2% did. So that's a lot of simple simplification. On the other hand, on the business side, things may have gotten more complicated. That's Section 199A, pass-through deduction, that Kim mentioned is remarkably complex and GILTI. And the international laws which Kim will talk about later, also had the effect of making taxes more complicated. The third point we know is there is substantial revenue loss and budget costs. The original static revenue cost was 1.5 trillion. CBO later raised that to the order of

1.8 at 1.9 trillion. With interest costs, we're talking about 2.3 trillion over the first ten years. That's with the individual provisions expiring. If you use dynamic scoring, you reduce the revenue cost. Depending on who's score you use by between 7 and 31%. But in any case, there was a substantial revenue loss and budget cost.

The last thing we think we know is that TCJA was regressive. These are Tax Policy Center estimates for 2018. The estimates change some after 2025. They change a lot after 2025. But you can see generally the percent change in after tax income rises as income rises. It doesn't quite rise at the top relative to 90 to 99 because of the deduction for state and local taxes, which hits very hard. If you're a billionaire and you're paying, you know, 6% of your tax in state and local taxes, 6% of your income and state and local taxes, and that gets reduced to $10,000. That's a big hit. Okay. So at the very top, it's less progressive than close to the top. But also, if you look at the dollar numbers, you get you get an even starker picture. So the top 1% is getting a tax cut of about $1,000 a week. The bottom quintile is getting a tax cut of about $1 a week.

The $60 a year, even the middle quintile, the 930 is getting about $18 a week. So in aggregate, the tax cut that goes to the top 1% is equal to the tax cut that goes to the bottom 75% of households. All right. The three areas where the evidence is not conclusive: GDP, wages and employment in aggregate investment. And every time I say aggregate investment, I'm going to mean corporate and non-corporate investment. The aggregate trends, of course, are not going to prove or disprove anything. The goal is to help them provide a framework for thinking about how big effects could be or where the effects might be located. And there's a couple of problems. One is we're looking at short term effects rather than long term effects.

The long term, if you would expect supply side effects to weigh more heavily. It's not that they don't weigh in the first couple of years, but you expect them on the way more heavily over time. But of course, COVID hit in 2020. So all of our analysis is going to stick with 2018 and 2019. And of course, there's other things going on in the economy. Having said all that, I would give you my own personal judgment. I will not indict my coauthors here. My own personal judgment is the effects look weak to me. But that's not in the paper. So I don't want to indict Jeff. So GDP and national income. Just in the five years before TCJA, GDP grew at 2.5%. In the two years after, it grew at 2.6%. That's in the right direction, but there were other policies going on than that probably boosted GDP. On net fiscal policy, we had big expansions in 2018 and 2019. Monetary policy was probably stimulative. Jason Furman has testimony in 2020 that lays this out very carefully.

There were tariffs and that did reduce GDP, but CBO estimates that the effect was quite small and particularly were small relative to the fiscal and monetary interventions. Over the ten year period, CBO estimates that estimated at the time that if the all the provisions expire at schedule, you'll see GDP one half a percent larger after ten years. Ben Page and I wrote a paper that said that's fine for GDP, but GNP, that is the national income according to Americans, it's only going to go up by one tenth of 1% because of the increased capital outflows that are caused. And net national product, which is the net of depreciation income available to Americans, is not going to change. So the effects, again, these are not conclusive effects.

But the first cut to me suggests that they're small. Wages and employment, this is a graph from the paper. And of course, there's more details on everything in the paper. You can see that the growth of nonfarm employment and the growth of the employment divided by prime population were both lower after TCJA than before TCJA. I want to say this is not a good look for an act that has jobs in its title that did a pretty good job on tax cuts, but not on jobs. And then the response to that would be, well, the market was tight. We were in this long expansion. And so if you expect the market to be tight, then you'd expect the effect to show up in higher wages. But median wages were about the same in the period before and after. They're one tenth of a percent growth faster. Where you do see the difference as high end as average wages.

And that's because at the high end, high income earners, managers and executives are basically capturing rents from the corporate tax cut. And there are several papers by Kennedy, by Eric Warren that indicate the surprisingly large extent to which managers and executives capture the benefits from corporate tax cuts. I think that's what's showing up here. Finally, the last item is investment. Again, aggregate investment. There's three components to investment.

IP equipment and structures. IP was rising before TCJA for all the reasons we know about. It's been rising after TCJA. So there's not there's not much obvious TCJA impact there except as Tracy mentioned, we've moved to amortization of R&D instead of expensing. I think as of '22, which is not in the graph, but equipment and structures, the top line and the bottom line, that's where the action was on TCJA. That's where the tax cuts were. But you can see that there was essentially no change in these things from before TCJA to after TCJA. I think equipment is one tenth of a percent of GDP higher. Structures is about the same. So the aggregate story does not suggest a big increase in investment. And then cross-country comparisons lead you to the same conclusion.

If you can look at this graph and tell me it's obvious that the U.S. had a big business tax cut in 2017, I will ask what medication you were on. We're right in the middle of the pack and the G7. After 2017, we were slightly ahead of the middle of the pack before 2017. But the cross-country comparisons, which are basically using the country as US and other countries, are the synthetic control for the U.S. and note includes corporate and non-corporate are not showing anything special for the for the U.S.. Lastly, let me talk about expert opinion. Jeff hoop suggestion. We got the Clark Center at Chicago to ask their group of experts about TCJA and their experts came up with opinions that are remarkably close to the empirical results, the empirical patterns I just suggested.

Only eight of this was as of last November, only 8% of respondents thought that U.S. GDP was substantially higher now. 87% thought that revenues were substantially lower. 71% disagreed with the statement that real median wages are higher and there was a lot of uncertainty about their corporate capital stock. So that's basically what we thought. Here are the things we think we know and the things that are lacking conclusive evidence. But where again, in my opinion, I wouldn't say the effects are that strong. Thank you.

BAKIJA: Hi, I'm John Bakija from Williams College. I'm going to be talking about the individual provisions of the TCJA that are about to expire and what we've learned about them so far. So as Bill suggested, the TCJA as a whole costs a lot of revenue and the benefits disproportionately go to the top of the income distribution. The individual provisions that are scheduled to expire starting in 2026 as tax year are responsible for a lot of that.

So making those permanent would cost about 1.2% of GDP and revenues as of fiscal year 2027. And the benefits would be larger for people at the top of the income distribution than lower down. So as Bill said, the TCJA dramatically reduced the share of people who itemize. The latest data suggests 31% of people itemize their reductions in 2017 and only 9% in 2021. And this happened mainly because the standard deduction was nearly doubled. And also the state and local tax deduction was capped at $10,000. One good thing about this is it reduced the compliance costs for the affected taxpayers who are no longer itemizing.

So some evidence by Ben Zadeh from 2020 takes a clever approach where he notes that a surprisingly small number of people have itemized deductions that are just above the standard deduction, and that he uses that information to infer the compliance costs of itemizing because presumably the reason there are so few people with deductions, itemized deductions just above the standard deduction is those people had itemized deductions that were larger than the standard deduction, but didn't bother to itemize because the hassle of doing so, the costs outweighed the benefits. So he estimates that the compliance costs from itemizing around 0.6 percent to 0.9 percent of people's incomes. That's probably an upper bound because the people who decided it wasn't worth it might be the people with the highest compliance costs. But still, this suggests there are some real gains from less itemization. The number of people subject to the alternative minimum tax dropped from about 5 million to about 234,000.

That also reduced compliance costs for the effective tax payers and other taxpayers who had to figure out whether they would be on the AMT and turned out not to be by a significant amount. So IRS studies suggested back in 2000 that for every person who paid the AMT, the taxpayer spent about 12 hours figuring out the AMT. Okay. So that I think, is probably a good feature of this reform. Now, is it good that itemization went down? So much so for charitable contributions? It's not so clear. Okay. So the itemized deduction for charitable donations effectively reduces the price of giving to charity. So if you donate a dollar to charity and you're in itemize or you save basically your marginal tax rate in taxes, if you're in the 30% tax bracket, you save $0.30 on your taxes for every dollar you give to charity.

There have been a number of prior studies that had pretty convincing identification strategies. For example, looking at how people responded to situations where the tax incentive for charitable giving changed in some states but not others. And those tended to find a price elasticity of around negative one. If you put that together with information on how people's incentives to give changed because of TCJA, it would suggest the TCJA would cause charitable donations to decline by about 7%, at least individual donations. So that's pretty significant. The nonprofit sector does important things for the country, and so that's a negative side effect of that, he said.

A recent study by John Hungerman and Otani Wilhelm basically uses a clever research design where they looked at people who, based on their 2016 characteristics, would have been predicted to itemize in 2016, but take the standard deduction in 2018. So those are exactly the people where the incentive to give went down a lot. And they and they looked at how charitable giving changed for this group compared to other people where the incentive to give did not change very much. And their estimates also imply that TCJA caused about a 7% decline in individual giving. Okay. So I would say this is a negative side effect because there's a good efficiency rationale for subsidizing charitable donations. If I donate to charity, I get some benefit. I feel like a warm glow from giving, but it also benefits other people.

And for that reason, I'm probably if I'm not subsidized in my charitable giving decisions, I'm going to give less than the efficient amount to charity. And that's going to have some cost in terms of reducing the charitable sector. Okay. The TCJA also greatly reduced the use of the deduction for mortgage interest. I'm not going to have time to go into the details here, but I would say that's probably mostly a good thing. A deduction for mortgage interest makes a lot of sense in a comprehensive income tax that's taxing all capital income. But our income tax is exempting the vast majority of capital income from tax. So in that setting, a deduction for interest doesn't make very much sense. It leads to tax arbitrage where people borrow, deduct their, the interest on their taxes, and then invest in a tax free asset which leads people to be overleveraged and causes all sorts of inefficiency.

What evidence we have is that mostly the mortgage interest deduction was having negative effects, like, for example, inducing people to buy more expensive homes than they would otherwise, when it would have been more efficient for them to save in the stock market or something like that. Okay. So I think that's probably a good outcome of the TCJA. I'd say the reduction in the use of the state and local tax deduction is a more mixed bag. Whether it's good or bad probably depends on whether you live in a blue state or a red state. The benefits of the TCJA were much bigger for people who live in low tax states than people who live in high tax states because the cap on the SALT deduction and the reduction in itemization greatly reduced the benefits of the tax cut. For that, I would say there's also a new literature that's arguing that there's a big problem of spatial misallocation in the United States where basically people don't live where they'd be most productive. Like maybe you'd be really productive living in San Francisco.

That's where you get the highest wage. But because of differences in the cost of living like problems in the housing market and differences in taxes, people don't move those places. Getting rid of the SALT deduction or capping it exacerbates those problems. So that may be an efficiency drawback. But with that said, it's not clear that those cap costs are that large. So, for example, Young and Lurie's research on how migration responded among millionaires to TCJA is that the effect was extremely small. On the child tax credit, it was doubled by the TCJA and that it was fair affectively tripled from its former level just in 2001 temporarily, and it was made permanent, fully refundable in 2001. There's been some interesting research on the effects of that.

So several studies have looked at the fact that in 2001, when they made the child credit very big and fully refundable, it reduced the incentive for low income people to work because now they're getting a big check whether they work or not. Whereas under the normal child credit before 2021, for a low income person, you got $0.15 of credit for every dollar you earn from your job. So that incentivized you to work. On the other hand, maybe giving cash to poor people helps them overcome credit constraints that prevent them from paying fixed costs of work like for childcare and things like that. So maybe that might boost labor supply. The research on this suggests there wasn't any significant change in labor supply. Okay. And this is in the context of there's also other new research, like for example, Henry Klavan is re-assessing the evidence on EITC and suggesting that actually low income people's labor supply is not that elastic in response to incentives compared to what we used to think.

And there's a lot of evidence from around the world that subsidizing complements to work like childcare and things like that more than offset the disincentives to work from transfers to the poor in many countries. So that that like, for example, the Nordic countries have the highest labor force participation rates in the world, even among low income people, partly because of these subsidies for complement to work, which suggests all these things together that maybe the case for a larger and refundable child credit is stronger than it once was. And this is something that's definitely on the agenda now. Finally cuts to marginal income tax rates. Those are going to have some efficiency benefits, but whatever benefits would be very small from the TCJA because it was a very small cut in effective marginal tax rates. On average, the federal effective marginal tax rate was cut by two percentage points.

But the combined federal and state effective tax rate was cut by much less than that because of capping the SALT deduction and the reduction in the use of itemized deductions for state and local taxes. So it didn't improve incentives, for example, to work that much. I think an example of transparent evidence on this is the evidence from Piketty and Stan Cheever, which suggests that since the 1960s, countries that cut their top income tax rates by the most saw the biggest increases in pretax income going to the top of the income distribution, but didn't see any faster economic growth compared to other countries that didn't cut taxes at the top. And what that what they argue this implies is that most of the response of income to taxes has to do with changes in tax avoidance or changes in rent seeking and those things probably have smaller efficiency costs than other real economic responses, like working harder, for example.

And based on that, they argue that, that they would argue that the TCJA is going in the wrong direction by lowering tax rates at the top, that we should probably be raising tax rates on the top to mitigate economic inequality because there are going to be some efficiency costs, but they're not that large, at least based on this cross country evidence, and that they're probably outweighed by the additional value of a dollar to very low income people compared to high income people. Okay. Thanks.

ZWICK: Okay. Thanks so much, Tim and Bill, for organizing this amazing and David for this amazing event. For those of you who, like me, are holding out hope that Kendrick Lamar will play the halftime show, the Super Bowl tax policy, don't hold your breath, But I'm still looking forward to the Super Bowl tax policy. So here I'm going to talk about the domestic business tax provisions and what we know from the state of the literature on what effect they had. I'm going to start actually with a little bit of theory. So, so hold your breath. But this is a very simple framework, neoclassical investment theory. The choice of optimal capital stock firm basically faces a diminishing return to increasing capital. They pay taxes on that.

There's a parameter governing that. There's also a cost of capital and deductions potentially for the capital that they choose. And there's some subsidies there. And in our paper, we sort of show how this very simple, stylized framework can be used to map the very complex business tax provisions and the many changes into a few key parameters. And then we try and measure those parameters and talk about their effect on investment in other outcomes. So mapping these many provisions into a couple of these parameters and then measuring the change in those parameters across firms and across industries, we're going to find an average change in the marginal tax rate for domestic businesses.

This is not pass through, this is traditional C corporations of about ten percentage points. And because the value of deductions for investment also depends on the level of that tax rate. So there's investments, a less valuable shield when the tax rate is lower, the cost of capital subsidy also falls by about 8.5 percentage points on average. There's a net increase in the incentive for firms to invest 2 to 4 percentage points varying across industries and firms. But there's also a lot of heterogeneity across firms and industries which this plot shows. On the left, we have the 10th percentile for each component of these reforms in the change. And the middle is the median. The right is the 90th for each component. And you can see there's a ton of variation there that's going to be useful for thinking about the effects of the reform, because when we look at the aggregates, they're informative about the effect of the reform rate.

But we can only squeeze so much juice from the fruit from this lemon of aggregate time series for a few reasons. So what I'm showing here is the Time series like Bill showed of all investment equipment structures, intangible intellectual property. The only thing that's clear after the reform is how corporate income tax revenues collapses. Right after the reform, which I think was a point raised earlier. However, you know, the pre TCJA time series might not be the perfect counterfactual for the post time series. The economy was running quite, quite strongly at that time, and the Post-surge Time series might be affected by other macroeconomic shocks, changes in oil prices, changes in interest rates, changes in the foreign investment environment, these such things. And so this cross-sectional variation in exposure to the reform is actually quite useful.

And a lot of what we do in the paper is talk through different studies that exploit different approaches to measuring in the cross section the effect of the reform to try and isolate the effect of the reform from other macroeconomic factors going on at the same time. So one study is one that I caught that Owen gave and I coauthored with Matt Smith at the Treasury. And this is Bill's favorite chart, I think, but it shows in the cross section for firms with different amounts of shocks or changes in incentives on the x-axis, firms to the right of this graph have a larger increase in the incentives to invest firms to the left of a smaller incentive investment growth in the two years before and after the reform or the two to the two years before. In the two years after comparing those two and you see an upward slope that's not skewed, not driven by outliers and so on, that's like quite strong.

And it implies that on average for a firm that stays the average shock, a 15 to 20% increase in investment relative to counterfactual, no tax shocks. So a substantial investment response. But it's not the only cross-sectional investment response that one can detect in the data. Another approach is to take multinationals domiciled in the US and compare them to multinationals from other countries and to develop sort of appropriate counterfactual. You can't just take, you know, all of Japan and develop a counterfactual to the U.S. because the Japanese economy is quite different from the US economy. But to like for each firm, find a match that looks kind of close in terms of industry size and so on, construct a counterfactual from those close matches.

And what this plot on the left shows us multinationals. Now this is both their foreign and U.S. investment increased quite dramatically compared to a counterfactual which actually shows a decrease in that counterfactual in aggregate investment, which also can. Help us understand why the aggregate trend doesn't seem to deviate. The suggestion is that the counterfactual might have been a bit of a slowdown in investment growth in the absence of the reform. So the plot on the left here shows a roughly 17% increase in global investment by US firms.

We talk in the paper about how the reform increase incentives to invest in the US, but also to invest abroad for U.S. firms which may or may not be, you know, to the designers of the reforms there, their intention. And on the right, we just saw a placebo that if you do the same thing with Canadian firms, you don't find any effect. Now, it's not just our paper, of course, that has presented evidence in the cross-section of investment effects. Here's another approach to develop a counterfactual. Francesco Forno looks at analyst forecasts for investment, for global investment for firms.

And that's what's here in the Orange Series. And then actual investment that these firms pursued. And again, you see actually quite a consistent estimate of about 14% increase in aggregate investment relative to this counterfactual. So different ways of establishing counterfactuals from just using the pre-reform Time series. I'll point to an increase in investment capital investment on the order of 8 to 15% is sort of where we were seeing the rough consensus at this point is that's in the short run right around the reform. Now moving from investment to wages, this important paper by Kennedy, Delridge, Landefeld Mortensen uses a different counterfactual.

This is now using is corporations that got a smaller tax cut as a counterfactual for C corporations that got a bigger tax cut. And finds in their paper they actually also find a substantial investment response, which I think is quantitatively fairly consistent with what we're suggesting from the larger C corporations. But the emphasis in that paper is more on the wage response. And you can see this average wage response right after the reform. And they break it down, which is really interesting and show that it's mostly coming from executives, officers and potentially owners of closely held firms that are paying themselves higher bonuses and wages.

So it really is payments to capital or, you know, entrepreneurial human capital or something like that. The magnitude of this response is an order of magnitude lower than the CEA suggested, 4000 to $9000 increase in wages. And it's important to put that in context. And I think some of our model based calculations for the longer run impact on wages find similar lower wage responses than what was suggested at the time. A third type of outcome that you might be interested in is the stock market. In contrast to maybe mixed evidence on the effect of the reform on investment, there's pretty strong evidence that the reform increased stock prices, especially for firms that got larger tax cuts. This might be due to more investment in the future.

And, you know, shareholders thinking about those profits that come from that investment, but probably more of it. And we try and do a decomposition. And our main study is coming from just the reduction in rates and so on, sort of mechanical increase in after tax profits available to shareholders, plus the international reform provisions that they came we'll talk about. Okay. And this this graph is showing if we compare high versus low exposure firms and run an events study essentially accumulating over the debate period. So in 2017, as different provisions of the debate are rolling out an increase in excess returns for the high exposure versus low exposure firms. So this is again, trying to do a kind of cross-sectional analysis to think about the effect of the reform, isolating all the other things that affect the stock market at the same time. Okay. To go from the short run to the long run, there was mention that COVID, there were a lot of macroeconomic shocks that hit the make it hard to think about the long run.

In addition, the fact we're not in the long run just yet. So you know there are papers that then take some additional assumptions and take the short run evidence and try and use a model to think about what the long run implications are. And so here we've calculated through that methodology an increase in domestic corporate capital, 7% in the long run. And we discuss in the in the paper how this long run response in the short run, you know, large investor responses are also consistent with what we observe in the aggregate time series of like not so much going on in the aggregate, but what is very clear from this long run is if you think about the revenue payback from the increased investment in corporate profits, it's quite small compared to the mechanical direct cost of the reform. So this part is showing a different horizons one, five and ten years.

The mechanical corporate cost. I'm sorry, the legend seems to have fallen off. But the dynamic payback, which is the red stuff, which is kind of small because there's more investment, but that's also bigger deductions. And then there's labor income front, which shows up much later as more capital makes wages go up a little bit. And there's more personal income tax revenue that's relatively small. So this is an expensive reform. So fingers crossed for an important policy debate in the Super Bowl. Tax policy going. Forward. As Tracy mentioned, many provisions are going to change or expire. And the fiscal position of the US is considerably worse, both on a debt to GDP and also the cost of servicing that debt basis.

Which provisions had the highest bang for the fiscal box that we go through in a lot more detail than I'm presenting here. Those kinds of questions and answers based on our reading of the literature. Accelerated depreciation seems to have the highest bang for buck of all these provisions. But, you know, it's not like infinite tax cuts to pass through is look especially unattractive. They don't generate much growth and they're quite regressive and on international. And I'll leave it to Kim. There's much more in the paper. Thank you so much.

CLAUSING: I'm going to join everyone in thanking the conference organizers. It's great to be part of this group and to Perkins for hosting this. I'm going to talk about my contribution to the symposium at a pretty high level, in part because I'm not sure the whole room wants to go through every acronym and detail and there wouldn't be time for it. But in part, as a nod to Tim Taylor, who's done such a great job editing these papers, that it's important for us to leave some things for the reader. So I'm hoping that people will be inspired to read based on this.

So let's begin today with the basics. I'm going to take as axiomatic that we want to have an income tax, all right. As opposed to a consumption tax. And that that means that we want to tax capital income in some way. And we also want to tax the rents that show up in capital income form. So I'm just good let's not argue about that. I'm just going to assume that. And if we assume that I mean, I think one thing really quickly we want to remember, and this is a graph from Steve Rosenthal we saw earlier and hopefully is here to appreciate his own graph.

So it's actually very hard to tax capital income at the individual level. We don't even try to tax it for almost three quarters of capital income is in tax exempt accounts or it is held by tax exempt entities or people the US government is not trying to tax. Of the remaining 27% that we attempt to tax at the individual level, that's still really hard to tax. Some of you may have followed conversations about unrealized gains. Those are hard to tax. There's complete step up in basis. It does in short, we're not going to do a very good job at this unless we reform all of that. I don't think we are going to reform all of that. And that means that taxing at the entity level is very important. Okay. So you might say, why is she talking about this?

Well, if taxing the entity level is important, it's also important to address the corporate tax base. Right, and be able to tax that. But the corporations themselves can be quite difficult to tax. One thing to note about the corporate tax base is it's very concentrated. Less than 2% of corporate payers are 95% of the base, and those are the ones that are actually paying. And less than one tenth of 1% are 70% of the base. And those firms are disproportionately large, but they're also disproportionately multinational, and many of them are quite agile and able to shift income offshore. So in short, we can't really have an income tax system that taxes capital income if we don't tackle international tax. So I hope you've been inspired to care about international tax. Okay. So what is Tax Cuts and Jobs Act try to do here? In short, it's trying to balance two goals that are an inherent tension and that have plagued international tax for all of time.

One is defending the corporate tax base from erosion due to profit shifting and offshoring. Right. But also just the mobility of capital. And the other is preserving the competitors competitiveness of U.S. multinational firms, particularly as they themselves would describe it, which is their ability to compete in global merger and acquisition bids. I have my own quibbles with that goal, but let's just take that as also axiomatic. So the legislation itself is a balancing act. There's a net corporate tax cut. I've already, you know, removed the base broadeners, of which there are many, but there's a net corporate tax cut of about 650 billion. There's a deemed repatriation tax. It's not very interesting because it's not going to affect things going forward. It's just a tax cut relative to prior law that raises revenue. And then there are these other international things, acronyms and on net.

One thing you should notice is that they neither raise nor lower revenue. So what does that mean? It means that the balancing act is going to make everyone kind of unhappy. Those who want competitiveness are going to be like, But wait, you didn't make it easier for us to earn foreign income. And those who want to preserve the corporate tax base are really like, Wait, you're not raising any money on foreign income? And we're going to be left with some of the same problems that we had before. And that, I think, is part of what we learned from this international tax reform. If you turn to the revenue picture, the data that we have so far, and I took this from Penn Wharton's analysis of the international provisions indicate that some aspects of the international reforms were less costly than they thought, than we thought they would be, than TJCA thought they would be, and some were more costly. The export subsidy in particular.

This FDI drives down the net income. So if you look at those light blue bars, the part in 2018, 2019 and 2020 is lower than what you see earlier. Right. And that's because the export subsidy is on that kind of driving down the income or. Heading for multinational income. The minimum taxes have mixed performance. GILTI seems to bring in a little more than we thought. It's a little hard to tell because it's mostly going to show up in the corporate tax base. What about offshoring and profit shifting? In my view, there's just incontrovertible evidence that there are disproportionate profits booked in low tax countries and Post Tax Cuts and Jobs Act.

Most studies show relatively modest effects on U.S. multinational offshore profit shifting some effects and in some effects really driven by a tiny handful of firms that are changing their behavior, but not enormous effects. This graph shows OECD data which indicate that multinational profits are an astounding 50% of GDP in the lowest tax rate countries in recent years. This I just took off of Twitter. Thank you, Gabrielle Zuckerman, for who has the most recent year that you just put up a day or two ago. And what you see here is in the wake of Tax Cuts and Jobs Act, U.S. multinational profit type return data from the DEA looks pretty flat as a total from the lowest tax jurisdictions. So there's not a lot of movement in the five years right after Tech Tax Cuts and Jobs Act until just recently.

So one possibility is this is just like a lag and it takes five years to do stuff. And another possibility is other stuff is going on. The big thing that I'm going to talk about a second is the international tax agreement is going on at the very end of this. And I suspect that that's part of what we're seeing in that. But I think when you look at the both the profit shifting and the revenue and at competitiveness, frankly, you see what TCJA would have expected you to see, which is a mixed bag. Some companies are paying more in their on their foreign income. Some are paying less. Some are feel more competitive after this, some feel less so. And that's kind of unsurprising given that Tax Cuts and Jobs Act is sort of giving with one hand and taking away with another in the incentives it's creating. And there's a lot more detail in the paper, but really hard to fit this into ten minutes. So turning to wages, investment and growth, I will agree with Bill on his assessment of the aggregate pictures and I guess with Eric, right? I mean, it's really hard to see much there.

I think there is a puzzle here why Eric and his coauthors and other papers are finding investment effects for the typical firm, but they're not, you know, showing up in the economy writ large. Like, what does that mean? Does that mean that this money isn't quite well spent, like it's the bang for the buck higher in some areas than in others? Is it possible that the concentration that I referred to earlier is partly responsible for that disconnect? I think it might be like good econometric studies look at the responses of typical firms with large men, right? But if we think the economy is disproportionately driven by small n by one tenth of 1% of C Corp rate, that group is really hard to capture in these more sophisticated ways, and they may be less sensitive to some of these incentives than others. And that could also explain the disconnect.

So what does the future hold for U.S. international taxation? I think that's impossible to discuss without talking about the international tax agreement. And let me express some optimism here. I know it's you know, there's the Super Bowl. There's a lot to look forward to. But the problem of taxing multinational companies has been vexing for a really long time, in part because of these balancing acts that I've been talking about. And there's a prisoner's dilemma here where jurisdictions will be tempted to lower their tax rate to attract tax base away from each other. And the only way to really handle that international collective action problem is with international collective action. And we've seen that with the international tax agreement.

I don't think anyone thinks the agreement is perfect, but I do think it's a step in the right direction and it's a step that makes it a lot easier to resolve this dilemma. Countries throughout the world have adopted a tough country by country minimum tax, and that is a bigger disincentive to profit shifting than what we see in the globally average one. For reasons that I've discussed at length elsewhere. But what this means is it's far easier for governments throughout the world, including our own, to levy taxes on mobile income because the bottom has been raised from 0 to 15%. So that means if you're at 21, that's not that different from 15, whereas 35 is pretty darn different from zero. So I think we're at a much better starting point.

In 2025, lawmakers are going to face really difficult tradeoffs, some of which have already been alluded to today. The Tax Cuts and Jobs Act extensions are so expensive, the cost originally was 2 trillion. Now we're talking about 5 trillion, maybe six, if you include interest. If you fully extend everything, including the automatic business razors that were baked into Tax Cuts and Jobs Act. And there's every reason to think those would be included as well. That's expensive. So, in my view, buttressing the taxation of the capital income side of national income is going to be important. The corporate tax is a way to do that. International tax is a way to defend the corporate tax, and this is a lot easier than it used to be because of the international tax agreement.

One could, even if one were concerned about smaller businesses, exempt 98% of tax paying C-Corp and still get 95% of the revenue you would get from rate increases. And that might be one political compromise to think about. There are, of course, alternative suggestions. I'll just briefly mention that the Republican candidate for president has committed instead to a carte blanche Tax Cuts and Jobs Act extension, coupled with an even lower corporate rate of 15%. And the only revenue raiser he's suggested are tariffs on every single country in the world of between 10 and 20%. I will note that that would move the tax system in a less efficient, less progressive and less hopeful direction with respect to global collective action.

FELDMAN: Okay. Okay, great. Okay. I just like to add my voice to all of the thanks for putting this together. We're going to switch gears a little bit now. We're going to talk about a topic that's a little bit different than a lot of the corporates and individuals side of the TCJA, and that is opportunity zones.

So what are opportunity zones? So opportunity zones are a place based policy, and the motivation for play space policies is to address disparities and to stimulate economic development and disadvantaged geographic areas. So there are a lot of challenges in these distressed areas. As many of us are well aware. There's a disconnection of the non-disabled men from the labor force. There's persistent economic stagnation. There are problems with substance abuse and low employment. So there has been a shift over the decades moving from helping individuals to move to areas where they could have higher economic opportunities to recognizing that that doesn't solve all the problem and that we should potentially face or should potentially look at helping people that are living in certain areas and helping those areas themselves.

So this has been a growing discussion among economists for quite a long time now, but there's really a lack of consensus. So there's a checkered history of previous place based policies. There's mixed evidence on economic outcomes, short run, long run. Do they scale up? And things along those lines. And so there's just been a lot of skepticism towards just simply expanding what we've been doing. And so Opportunity Zones sort of deviates a lot from what we've been doing in the past. So what is an opportunity zone? So first of all, we can think about the United States as being divided into about 73,000 census tracts. These are geographic areas based upon population of roughly 2 to 8000 individuals. And so in order to qualify to be an opportunity zone, that is to receive these preferential subsidies for investment, you had to either have an official poverty rate of at least 20%. You had to have a medium family income below 80% of the median family income in the state or the MSA.

Or you could be contiguous with a track that actually qualified under those under those first two qualifications. And you also had to have a median income less than 125% of the qualifying track. So out of those 73,000 census tracts, the United States roughly about 42,000 qualified based upon the first two qualifications. And about another 14% based upon the third one. Out of those governors were eligible were allowed to select 25% of census tracts. So at the end of the day, there are about 87,700 census tracts that were selected to be opportunity zones. So what are some of the key characteristics of the legislation? So first of all, it's sought to relax government control over investment, location and form. So this is where Opportunity Zones deviates a lot from previous policies.

It didn't want the government to have a lot of oversight over what was going on, where the investment was going, the type of investments and things like that. It offered uncapped tax incentives for private individual investors to invest unrealized capital gains. So this was the big innovation, it was taking this under and sort of taking the stock of unrealized capital gains that, you know, wealthy individuals or, you know, most wealthy individuals had sitting and they could roll it over into these funds that could then be invested in these opportunity zones. And there are a lot of tax breaks that came with that, which I'll say a little bit about in in a minute or two. And again, it broke from previous place based tax policies and involves government approved entities.

So there's a slew of previous policies, new markets, tax credits, empowerment zones, enterprise zones. Perhaps you've heard of some of these. Again, a lot of them tend to be quite targeted towards specific urban areas and things along those lines. Okay, so let me explain what's going on here. So first of all, one of the first questions we can ask about opportunity Zones is that were they actually targeted towards the places that we wanted them to go? So let me explain what's going on here. So if we look first at this dashed, I'm sorry, if you look at the sorry, I don't want to put any color there. Well, I guess we've got color now. Okay. If you looked at the sort of dotted line that line represents, if we were to organize all of the census tracts in the United States from the poorest to the wealthiest, and we were to take essentially just working our way down from the poorest and assign those to be part of the 8700 census tracts that were selected, you can see here that if you're in the sort of bottom decile of census tracts based upon median income, you had roughly 100% probability of being selected as an opportunity zone.

In fact, we could fill nearly all 8700 just in the bottom two deciles, the bottom 20% of census tracts. And so you could see here that the probability of being selected if your median income is in the 30, you know, 30th, 40th, etc., percentile was close to zero. On the flip side, because think about, well, what if again, we just took all of those census tracks and we actually chose the wealthiest census tracks that were eligible. So here we don't have enough, you know, wealthy, rich census tracts that would fill the 8700. And so we have to really move along the distribution.

So you could see that basically we could take the 8700 census tracks that could be theoretically selected and we could fill them with about the 20th, 25th percentile and above. The dark black line represents actually the realization of what actually happened. And so you can see here that governors that chose the 25% of census tracks on average, they did something a little bit in the middle. So they didn't choose exclusively the worst off census tracks and they didn't, you know, put too much weight on the wealthiest census tracks. And so you could see here that if you're in the bottom percentile, though, the worst off census tracts, you had roughly a 50% chance of being selected as an opportunity zone. And you could see its downward sloping as census tracks get wealthier and wealthier, which overall is a good thing.

So this is the United States as a whole. Let me give you two examples of states that did a fairly good job in targeting and one that did a less good job. And if you're interested in your particular state, talk to me afterwards and I can show it to you. So here's Georgia. So Georgia, again, the same lines that we saw before this is that they chosen the lowest tracks. This is if they had chosen the wealthiest tracks. And so you could see here that Georgia actually at the very low end census tracks, had close to a 70% chance of being selected. And in fact, they filled almost all of their census tracks with nobody going above roughly the 40th percentile. Whereas if they'd focused really on the wealthier census tracks within the state, they actually could have filled them with census tracts that were not as distressed.

Let me give you an example of Oregon, which did not do such a great job. And so here you can see that the lowest census tracks in the lowest percentile were not that much more likely to be selected versus those that were in roughly the 50th percentile. In fact, it's not exactly a uniform distribution, but it's definitely flatter than what we saw in across the United States on average and in Georgia. And so here you can see that basically that Oregon did not do a great job in targeting the most distressed areas. Now, two points I want to make from this. Number one is that this is not to imply that all states should have chosen the worst off tracks. There are certainly other tradeoffs. Many states wanted to focus on geographic dispersion within the state.

You really want the money to go to potentially where there is the greatest social return to investment, that's not necessarily always the worst off tracks. But in general, right. Given this policy of a place, you know, wanting to focus and get investment towards distressed areas, you'd want more investment, more of them to be focus, more of them to be selected at the low end. And the other point I want to make is that on average, we only have a few of the hire, if we go back to this figure here of the United States, if you say there aren't too many that are being selected at the high end, but as long as you have, some of them are being selected at the higher end, that offers a little bit of, you know, ability to sort of divert investment to areas that aren't necessarily distressed and still receive the tax benefits of the investment.

So some of the outcomes when we look at OZs, well, it's a bit of a mixed bag, not unexpected. So just looking at 2019 and 2020, there's about $44 billion that were invested in OZs. This is in contrast to the most similar program, which only has about 6.5 billion over those two years. We don't see, based on research that I've done with my coauthor, Kevin Corns, there's really no strong effects looking at commercial investments. But there are some suggestive impacts on multifamily housing post COVID 19. So again, you know, we're looking at census tracts that were not were basically around the eligibility requirements. So some of them are just not eligible. Some of them were just eligible. And we don't really see any differences in the investment in those two types of tracks. There are some other papers that look at residential development and they find there's a small increase, a smaller effect on commercial development. If we think about some other downstream outcomes like housing prices, employment and business formation and more. Again, it's a bit of a mixed bag.

On this paper here are as far as that of the exception who has found some increase in employment, suggesting that there were some projects that were brought forward and workers were hired. But that's really the exception to most of the work. Now, again, this is also complicated by COVID 19 team, which unfortunately for all of us happened soon thereafter. And so it's a little bit unclear if some of this is a short run effect and what's going to happen as time goes on. So let me just I have actually run out of time, so I'm going to skip this here. Actually, I'll just end there then. Okay. Keep things on time.

WESSEL: I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy. I want to thank everybody for coming on to explain that this isn't the Trump-like attempt to dominate the economists. It's just that it's awkward to have six chairs up here. So I agreed to moderate from the podium. And I wanted to join everybody in celebrating Tim Taylor's ability to turn what could be turgid and unexplainable, digestible pieces into stuff that people can understand. And I think that the slides benefited from the work that Tim did as he edited these papers.

So we have quite a bit of time here. I'm going to ask some questions and I'm really eager to invite the rest of you in the audience to join in. John, I want to start with you. I mean, one reason to think about the individual provisions of the TCJA is that those are the ones that they definitely have to do something with that definitely argue about opportunity zones and business taxes. But if they don't do anything, the world doesn't fall apart. I don't think, Jon, I was trying to figure out of and I really appreciated your very unconventional willing to say something was good or not good. You will be invited back. So I was trying to think through those provisions of the TCJA that you would feel strongly about extending or not extending. It seemed to me at the top of my list it was you thought the charitable deduction thing had a cost?

BAKIJA: Yeah.

WESSEL: I can imagine a solution to that. You can give people a credit for charitable objective. So tell me about a little bit about that. Is that what you would put as one of the things?

BAKIJA: Yeah. I mean, I would say the idea that we should be subsidizing charitable donations, there's a pretty strong argument there. It's not clear that an itemized deduction for charitable donations is the optimal way to do it. The probably the strongest argument for subsidizing charitable donations is providing this positive externality. If there's no evidence that the externality is necessarily larger for a dollar donated by a rich person than a poor person. But the way we subsidize it is, it's basically almost all the subsidy is going to very high income people. So a flat rate, refundable credit could be a better policy. Maybe we don't really have great evidence on how externalities differ across the income distribution, but in the absence of evidence, a flat credit might make more sense.

WESSEL: And it sounded to me like you thought that the making the tax code simpler so that fewer people itemize. That was basically a positive one plus some downsides.

BAKIJA: But yeah, I think I think that's a positive. I think reducing the home mortgage interest deduction use is a good idea. I mean, I worked on the 2005 tax reform panel as a technical staff member. And when it came out, the only thing the newspapers focused on was the changes to the home mortgage interest deduction that killed any interest in the proposal. So it was actually pretty clever that they doubled the standard deduction as a way of reducing the use of this thing, which I think is pretty inefficient. So I think, you know, I could see maybe keeping the larger standard deduction, but having something like some kind of refundable credit for charitable giving, maybe that could be a more optimal way to go than just extending everything and ignoring charity. I think on the list of things that made sense, I think the switching from personal exemptions to larger child credits and dependent credits, I think that also made a lot of sense and that was actually something that was similar to what was proposed in that 2005...

WESSEL: And your bottom line on the labor participation effects of the child tax credit and the Earned Income tax credit is there's a bit of argument where that's not resolved or do you have a view on that?

BAKIJA: Well, I'd say it's we can be less confident that there's a strong labor supply response to these sorts of things than we used to be able. Now, I would say in my paper there's a more nuanced discussion of this than I had time to give here. You know, one caution on interpreting this evidence is it could be that maybe the reason we didn't see a labor supply response to this huge increase in the Child Tax Credit in 2021 is it takes people a while to learn about how it affects their incentives. And maybe the long run response could be larger. But I'd also say we have kind of mixed evidence on whether that's true or not.

Like, for example, Sears and Chetty and Friedman, I believe, have a paper where they just randomly selected people to get more information on how the EITC worked. And that said, they didn't find it led to a bigger labor supply response. So I think, the other thing that I think is important is we can look around the world and see there are a lot of countries that are doing more to reduce inequality and poverty that still have really good labor force participation, even among low income people. And it's because of all the other things they're doing to subsidize compliments for work. And I think moving in that direction would at least provide an opportunity to reduce inequality and other things.

WESSEL: You mean child care?

BAKIJA: Yeah. So, for example, subsidizing childcare, subsidizing elder care, things like this, you know, enabling people to stay connected to the labor force even when they have a child. Things like this at least provides an opportunity to reduce inequality in a way that doesn't cost that much in terms of efficiency.

WESSEL: Okay. Naomi, I really wanted to jump up and say, please don't cut your last slide with the conclusion. So here's your opportunity. So what's the bottom line here?

FELDMAN: So that's a good question. So first of all, I should say that it's really unclear what is the cost of the OZ program, because we really don't know what the alternative is. We don't know if these are capital gains that would have been. So I actually didn't have too much time to actually talk about what are the benefits. But as far as these unrealized capital gains are rolled into these qualified opportunity funds, which are then invested in these areas, individuals, private individuals, are given essentially subsidies to their capital gains tax. So some of it it's reduced capital gains taxation, if they hold it in these qualified equity funds for a certain amount of time.

And so the truth is, it's a little bit unclear what is the cost to this program because we don't know if these are gains that would have been realized anyways, in which case it is a cost, or these could have been gains that would have been held until death. In which case it could actually be a boon to government finances. So, so from that perspective, you know, if we think about a cost benefit analysis, it's a little bit difficult to judge the cost side of it in terms of thinking about, you know, is the program working in terms of targeting? I don't think it's as bad as many had feared. There are certainly exceptions.

There are certainly anecdotal stories that would prove otherwise. But for the most part, it looks like that governors did choose areas that are, you know, sort of distressed. We probably could target a little bit better. So there are you know, the 42% of census tracts are eligible to be selected as OZs. That's a lot. You know, it's a large chunk. We could probably do a little bit better targeting whether that's, you know, increase the poverty rate element of it and lower the median income and maybe kind of move a little bit in between sort of the current ozone legislation and the more the numerous tax credits and other credits which have a lot more government control to make sure that the money is actually going towards productive type investments and not just building, you know, new multifamily residential housing, which might not necessarily be the type of investment that they had in mind initially in order to create jobs and to improve.

WESSEL: Or I can think of worse examples than multifamily housing like self-storage, for instance. But it's I it seems to me the incentives here are really interesting. So for the governors, the thoughtful governors, it wasn't obvious what the right thing to do was. So like you pointed out, in Oregon, they did a wide distribution of census tracts. But if you're the governor of Oregon and independent of the political constraints like some for East Oregon and some for the West, you have to think to yourself, So let's say I picked only the worst census tracks in terms of income. But Washington State and Idaho were not going to do that.

Then I might be able to look good on your chart, but I might not get any money so that it wasn't it wasn't clear to me what the right answer was there, and they had no time to do it. One footnote here is they only underplayed how much work she's done using data to look at the way Opportunity Zones worked. Because one of the tragedies of the opportunities on the legislation, because this was passed, is, as Kim said, in reconciliation, and that was that something known as the BIRD Rule, certain provisions were stripped out. And one of the things that was stripped out was basically all the reporting of data. So there are a couple of papers. One by a guy who works at JCT and one by some people who work at Treasury who had the luxury of having access to tax returns. So you can actually see where the money went.

But outside economists like Naomi have to come up with very interesting and clever ways to do this. And I'm I won't belabor this because, as you know, I'm more interested in opportunity zones than your average member of this audience. But the second thing is, and I think you mentioned this, but I think it's important if you have picked a lot of census tracks, there's 8764 census tracks. Some of them are really attractive to real estate investors and the real estate investors are rational. And it may not be that the subsidy is big enough to get them to put their money into. A really poor census track. So the system kind of it may be that they were well selected, but as long as you have very attractive already gentrifying whatever census tracts, it's likely that they will get a disproportionate share of the money. Is that fair?

FELDMAN: Right. That's fair. And that actually goes to the slide that I also had to skip. Is that the incentives here are, we actually went through and did some stylized examples of the benefit itself. And the truth is, is that it doesn't take a highly unprofitable investment and suddenly make it worthwhile. It'll take investments that would have happened anyways and make them even more attractive. And it'll take investments that are just marginally below that and perhaps turn them to have a positive return on investment. But if you think about the most distressed areas, which probably have, you know, lots of investments with very low rates of return, high uncertainty, then it's really it's still not going to get towards those.

WESSEL: And just one more comment before I get off. So on your chart, you show that a lot more money went to opportunity zones than the new market tax credit. But of course, that's because Congress put a limit on the new market tax credit, so that couldn't have been any higher, and the opportunity zone is just unlimited, as many people as wanted to take advantage of it. So it's.

FELDMAN: A much bigger program.

WESSEL: Right? You could make the new market tax credit bigger. But as you point out, the complaint is it's very bureaucratic.

FELDMAN: So I'll just give a plug for the next paper. I've written on opportunism. We're exactly looking at this. We're looking at just sort of the relative amount of the investment versus the relative amount of Newmarket's tax credit investment that's going to particular areas.

WESSEL: Right? This is for the NPR conference in November. Thanks. Okay. Now, it was a little subtle. Eric and Bill, like they were poking at each other, but they were doing it in ways that if you haven't had of participate in this debate, you may not have appreciated. So let me just give you the bottom line here. Eric thinks the Tax Cut and Jobs Act had a bigger impact on business investment than Bill thinks. Bill, why do you disagree with Eric and Eric, why?

GALE: All right. I, I mean, this is how research works. You try to figure out stuff and then you try to find out that you agree on that stuff. You reach uncertainty and so on. So like I said, we our paper, we showed that the share of aggregate investment, that aggregate investment is shared. GDP is roughly constant. As I said, that helps frame the debate. Okay. That's not wrong. That just helps frame the debate. Eric's paper, which is fabulous, by the way, comes along and said corporate investment went up 10%. Okay. Now go back to aggregate investment. That would suggest that aggregate investment should go up by a full percent of GDP. All right. It didn't do that. There's only two potential reasons why either TCJA also crowded out, some other investment or investment would have fallen in the absence of TCJA.

As I understand Eric's presentation, he was saying investment would have fallen in the absence of TCJA. So that then that research connection effects gets us to focus on that. So the question then becomes what would have caused investment to have fallen by 10% in the absence of TCJA during an expansion? You know, how often does investment exogenously. fall by 10% during an expansion? What factors could have been involved? And that's what leads us to look at other countries. You know, were other countries having declines in investment? And obviously, they didn't have to. Yeah. And the answer is no. So I don't think that I'm right and Eric is wrong. I think that our now together focus turns the focus to what would have happened in the absence of TCJA and to the questions that I just asked.

WESSEL: Right. All right. So it is a lot about the counterfactual.

ZWICK: Yeah, definitely. And I mean one. So on the corporate. The corporate investment divided by GDP, are you accounting for like the intangible stuff there? You're adding that in. Just so I understand, like I think a little bit is in the precise definition because we're really talking about kind of structures and equipment investment, which is a smaller share of GDP than total non-reinvestment. There's like all this like real estate stuff and partnerships and so on. There's a lot of pass through investment which is not subject to the corporate provisions. So I actually think as a share of GDP, the base is a little smaller there. And so then thinking about detecting a 10% increase in that smaller base from an aggregate time series is like even harder given just the variance in that thing if you take the.

So a lot of this discussion of Time series is kind of ocular regression, like looking at it with your eyes and looking at the specific points and like looking before and after and saying like, the eyes look like it should be kind of the same before versus after. Okay. If you actually run a regression with that time series, right, you recognize how limited our ability to infer precise changes in that ratio from that time series are. So if you run a regression, you can actually reject an increase on the order of 10% of corporate investment. There's no question that aggregate times there is just not sufficiently informative to rule out the kinds of responses we're talking about. It's just, you know, but like the precise data point gives the illusion of precision and like what the actual distribution of potential outcomes are there.

So that's just one point. I'll just say like, I don't think the Time series is dispositive because it's just like not enough. It's just too noisy. Generally, what could have caused investment to fall a bit on average for the firms which we observe in counterfactuals in terms of projected investment relative to what transpired in S corporations, relative to C corporations and in foreign multinationals that look similar to the US multinationals where we can find a good match. My sense is so we talk about this a bit in the paper. So there's, you know, changes in oil prices which like induce a lot of cyclical variation in investment that's quite large. There's some Fed tightening stuff that shows up in borrowing rates.
So interest rates are a little tighter after CCJ, but it's like pretty small. It's not that big, but there's some of that. 2015 and 16 is not randomly chosen year from like the business Cycle time series. We had

this like massive global financial crisis and very deep recession that was like ongoing in '11, '12 into '13. There was still pretty sluggish growth coming out of that. So if you think about maybe projects that were delayed because the economy was poor that are then being like accelerated into '14, '15, '16, like the end of the Obama administration was a pretty strong economy. It's possible that there's some mean reversion in the investment process because these projects are kind of lumpy. And so that would also generate a bit of mean reversion relative to what we observe there. That is a hard counterfactual to infer from what we observe there.

WESSEL: Kim, you want to weigh in here?

CLAUSING: I mean, I what I like very much both of these papers, and I think there are potentially ways to reconcile these findings. I mean, the tax data is wonderful. And Eric and his coauthors have done a masterful job looking at it. But I but I do think this issue about the dispersion of the corporate tax base itself is relevant. If you're a really big company with a lot of market power, you know, and facilities. All over the world and someone comes along and changes the corporate rate and gives you expensing. It's not clear that that's going to have the exact same stimulative effect as it would for some small guy where you come along with the exact same incentives. And the problem with these big guys is that they're so big.

You know, there's a dozen companies that have over 10 billion in profits in the U.S. and then there's a few hundred that have over a billion. And then everybody else is tiny. Right. But so even when you look at sort of deciles of size in the really sophisticated way that Eric and his coauthors do, the end is just not really large enough to get a really good look at these big guys and they might behave in a different way. And if that were true, I think that can explain some of these puzzles between these two views. And Jason Furman had a really nice table and some testimony he did a few years after the Tax Cuts and Jobs Act, where he breaks down all these different types of investments and the quarters before and the quarters after. And again, it's an ocular look at it, but it's hard to look at that table, which is pretty refined and takes the oil and non-oil and takes all of these different parts. It's hard to look at that table and show it to any economist in the world and say like, well, where was the big, you know, impact?

It's just really hard to see. And if it's really hard to see, but yet it's still showing up in all the firms. You know, that doesn't mean it's not important, but it might mean that we might want to think about our tax policy in a more nuanced way. Maybe we don't need to treat typical firms the same way we treat the huge guys. And that's something I've argued in general, is that I do think small business and competition or something that our tax code could do more to encourage at the same time that it recognizes that there's an awful lot of supernormal excess profits in, you know, a few hundred firms.

WESSEL: So looking forward. Well, I have two questions. Let me start with you.

ZWICK: On that very quick. I do think it is important to distinguish the concentration of profits from the concentration of aggregate investment, which is much less concentrated. So the top 50 firms are 100 firms. The economy account for a disproportionate share of taxable income, especially within the corporate C corporate sector. But they do less of the real investment in the US. So I do think when we are trying to do size weighting and try to account for that. It is important thing, but it's not just like ten firms are doing all the investment, the economy. Like I really don't want people to think that that's not true.

CLAUSING: So the size weighting is difficult, right? Because you're using lines.

ZWICK: I don't know. I'm just saying like a check to throw out the top 50 firms from investment. How much of aggregate investment is still there? And it's like 80% or 90% in terms of like equipment, structures, investment. So that's what I want folks to understand. That's all I'm saying.

WESSEL: So do you want to respond to anything or kind of move on? Okay. So one thing I don't understand is why would we want to ask firms to amortize R&D if we want them to do more R&D? Doesn't expensing of R&D, isn't that like in in John's example, we want them to do more of it so we made it less attractive. Is there some good argument for amortizing R&D?

GALE: The good argument would be that that not everything that firms report as R&D ought to be, you know, some of it ought not be expense. Given our system, we depreciate capital, we expense wages. And the argument with the logical argument would be that some things are fall in R&D, wouldn't logically otherwise be depreciated. But generally, you're right that if you want more R&D, you should depreciate it, not amortize it. But I think what happened with at the time was there are varieties of these revenue raisers stuck in to meet the $1.5 trillion cap that, like the GILTI rate goes up to the expensing ends, the R&D moved from expensing to amortizing. I think the intent at the time people thought at the time was when the time comes around, we're going to eliminate those increases, right.

WESSEL: I have to say that in the history of tax acronyms, GILTI may be like my favorite. But just like, I'm not sure you can have that. All right. So there's looking forward, there's already a debate. The corporate tax rate was cut from 8 to 20 5% to 21%. The Business Roundtable would have been thrilled with 25%. President Trump wants to cut it further. Kamala Harris wants to raise it. Bill. And Eric, if you're thinking about the economics of this, the effect on investment in GDP will set wages aside. Tell me about the differences between cutting it further and raising it. So arrow signs you can start.

GALE: I think we I'm guessing we agree on this, but the rate cuts may reward old capital. The return to old capital, which is pointless. It just gives a windfall gain to investments you made in the past. Investment incentives reward new investments. And personally, I would love to see to the extent that they that they give corporate taxes, I would like to see it focused on moving toward a cash flow system where they allow full expensing and they continue to tighten up or eliminate the interest deduction. And that alone sets the effective tax rate on new investment equal to zero. And that so that's the part I'm pretty sure we agree on because I got it from Eric's paper.

ZWICK: Agreed. I agree with that.

GALE: So does that let you raise the rate a little bit? And I could see raising it to 25 or 28. I wouldn't fall on my sword. About 28, 25 would be fine. I don't think reducing it further makes any sense, given that it is primarily a windfall on previously made investments here.

ZWICK: I agree with Bill. I mean, I think our, you know, disagreement is about whether like the investment effect is like modest and positive versus zero. And we fully agree about how expensive a corporate rate cap was. And so in terms of like there's a budget constraint, which is a hypothetical statement, right? Like there's a budget constraint, what do we spend on corporate tax cut doesn't seem like near the top of the top ten things we should be spending on at this point. One thing I'll add about further reductions in the corporate rate is that it erodes the personal tax because there are all these mid-market and small businesses that are subject to, you know, pass through personal income tax rates that get cut by now or whatever. But like we further cut the corporate rate, we're just inviting a bunch of substitution and re characterization of income. Right. And it's going to be more expensive. And that's like, you know, zero some like sort of or transfers, basically.

WESSEL: I didn't sense a lot of support for 199A for the small business pass through deduction. All right, Kim, you did a great job of helping to put the international tax thing, which is makes everything else seem simple. So let me ask you a couple of things. One is, you know, when you do that nice bracket and say pluses and minuses nets out to zero, you kind of wonder like, well, why bother? Right? So obviously, if it's not revenue, there must have been some other. Well, when I'm asking what were the other effects? Did it lead to more U.S. firms bringing investment here that they would have done otherwise? Did it reduce the amount of game playing about putting all your profits in Ireland or the Cayman Islands? Or did it not?

CLAUSING: I think GILTI was chosen as an acronym because, you know, in a way they thought companies that managed to achieve a worldwide effective tax rate on all of their global income that was less than 10.5% were GILTI and therefore should be brought up to 10.5%. This did, in fact, raise tax burdens for the most tax aggressive companies, right? Some of them had gotten down to the single digit. So getting back to double digits was a way of saying like, you can't do that much, right? And frankly, I'm not that worried about those companies competitiveness because the ones that were able to do this were companies that were disproportionately very competitive in world markets, if not, you know, ones with big market power.

And they probably did have some market power, too. So there was that that was balanced with this export subsidy provision that was meant to encourage. You know, it depends on which politician you were listening to, but they acted as if it were encouraging things like research and intellectual property development in the United States. I think, in fact, it was really more about the income from that if it happened to be export income, that was encouraged, right? If you really want to encourage the lab coats and the discoveries, then of course you are more generous to R&D. That's a much more direct way to do it. It's a little weird as an economist to look at something and be like, No, we want to subsidize the excess profits, but only if it's from export income.

It's a little odd, but it was an attempt to sort of, you know, marry a stick and a carrot. And so I think it was a compromise, right, for the ones that were most tax aggressive, they were paying a higher rate than they were before for the ones that just were doing things offshore and weren't that tax aggressive, the removal of the tax upon repatriation that would have otherwise happened if you return the income to shareholders was more of a boon to them than any concerns that they had for GILTI, which they may not pay anyway. So, you know, it's a difficult mishmash to pull it all out. I also think we should probably credit the Republican tax writers for putting that the GILTI provision in, because if you had done the exact same thing without it, it would have led to an incredible hemorrhage of revenue that went out. But I think most importantly, it sort of set the stage for an international compromise. Once the US had any kind of minimum tax, it was much easier to do the tougher version country by country. And the whole world is effectively adopting it because enough leading countries have adopted it that it will apply even to the non-adopters, including ourselves. So that that backstop makes it much easier for governments throughout the world to get serious about taxing this highly mobile, highly concentrated...

WESSEL: So skipping over something I want you to talk about. So can you just explain what the international tax agreement is? And you referred to us accurately as a non-adopter, much to the chagrin of the Treasury, where you used to work. So explain what it is and where are we in that process?

CLAUSING: Yeah. So in theory there are two pillars. I think pillar one has always been under emphasized by US actors, in part because we don't think it will happen. And it's just like a hope to delay DST or digital sales taxes that might otherwise befall US companies and their consumers abroad. So that was more about reallocating the tax base towards the market jurisdictions that pillar one that probably will not happen, it's an uphill slog...

WESSEL: This is like, where does Google pay taxes in France or here?

CLAUSING: Yeah, exactly. Or if Netflix is streaming movies into a small country, do they get to tax Netflix like so. So those kinds of questions that let's bracket that. There's also this pillar two, pillar two is a coordinated adoption of a country by country minimum tax at 15%. The cool thing about the country by country feature is that absent that, there will always be zero tax rate jurisdictions that will have an incentive to have their taxes in part to offset higher taxes in places like India or Germany. Right. And then like a master distiller, right? The tax planner can combine these streams of income and get them down to the lower rate when you do it country by country. It kind of cuts out the very bottom. Right. Because there's no reason to be at zero anymore. Bermuda has legislated a 15% corporate tax rate, which is with the long time zero.

Now, we can quibble about workarounds, and there are a lot of ways that this agreement could be strengthened. But that's an enormous achievement because, you know, when the bottom is 15 instead of zero, even for low income countries, it's exciting for them that they might be able to collect 15%, whereas before, you know, a lot of it would just go out of the country. And if you look at the lower income countries, they lost a lot more to profit shifting as a share of GDP than any of the rich ones did. Right. So this is a really kind of exciting achievement, in part because international agreements for a long time have really been kind of about serving the interests of those who wanted to free commerce and everything else, but not about creating rules that could make globalization consistent with a fair tax system. And so, you know, I think we should take a moment to sort of celebrate the fact that this is kind of like a people oriented way to make tax and capital feasible Internet.

WESSEL: But in order for the U.S., as the Congress has not yet adopted this.

CLAUSING: No.

WESSEL: So we have a corporate minimum tax.

CLAUSING: Yes, well, we've got this thing called the corporate alternative minimum tax, which I'm not an enormous fan of. But what it does is it is that the tax is based on book income at 15%, but again, on a globally averaged basis. So all this global averaging makes us non-compliant with pillar two. You might ask, why didn't we just do that? I ask that all the time. I don't know. But I do have optimism that it will happen in the next Congress regardless of who's in power. And here's why. Like, I think there are revenue neutral ways to comply with that or even revenue losing ways, frankly, that can align us with what the rest of the world is doing and create a lot of simplification for multinational companies that are now paying like maybe five taxes. When you look at the US ones and the foreign ones and you add them all together.

So you can do that in a way that helps the international system. Or you can do it in a revenue raising way. And the Biden administration's Green books have put forward proposals. I've got my own version of that where you kind of say, okay, well, if the new bottom is 15, surely the United States of America, which has a lot of advantages, doesn't have to be at the lowest common denominator tax rate. And this is a time where we have a lot of fierce budget constraints. So we need to look hard at like, where are we going to get the most bang for our buck with tax dollars? And I think strengthening the corporate rate and I completely agree with Bill and Eric that if you're worried about investment, look at investment, look at expensing. Don't look at the corporate rate because the disproportionately we're talking about rents and above normal profits, not about the normal return to.

WESSEL: Okay. Why don't you something sort of a lightning round thing before I turn to the audience and ask each of you on anything in the TCJA, which is basically anything on tax. Is there one thing you really hope Congress will do and one thing you think they should avoid? I could pick. Does anybody want a be bill?

GALE: Sure. I would like to see them eliminate 199A and adjust the corporate rate. And based on what I discussed and I would like them to keep the repeal of the personal exemption, the expanded standard deduction and child credit.

WESSEL: John.

BAKIJA: I think the main thing is we've got these huge budget deficits as far as the eye can see. We need to do some things that are going to restore enough revenue to pay for the government. And I think, you know, rescinding some of the tax rate cuts in the upper part of the income distribution is probably worthwhile for that purpose.

ZWICK: A second bill on 199A.

WESSEL: And just to be clear, that's the small business pass through, give away.

ZWICK: Small business with like quotes. Right? And, you know, we should be very clear that is like closely held, potentially quite large businesses with like very, very rich owners, many of them. So I think we should be very careful about using that word small in a value sense to weigh in on something to keep, I think some version of accelerated depreciation for the investment stuff seems like it sort of makes sense, but I don't even know if we need full expensing. I think 50% bonus was like pretty effective. And if you pair that with like not a fully excluded exempted deduction for interest, you have to be avoid, you know, we're actually subsidizing this stuff on that. Yeah. So I think 50% seems like a good compromise.

CLAUSING: I have a whole Hamilton paper on this, so if anyone wants to see the whole thing, that's exactly what I what I want. I if I were a Democrat negotiating with.

WESSEL: If I were a Democrat.

CLAUSING: In Congress on a tax writing committee, negotiating with Republicans in the opposite House, the Senate situation, I might be tempted to let it expire. Not because there aren't some nice things in there, but I think it might be a better starting point for getting those nice things back and the nice things I would want to get back or what Bill said, the higher deduction combined with the exemption child credit and I think the AMT salt cap swap is worth it. Those are the two things I most want to keep, but I'm not sure we can afford the rate cuts. And regardless of any silly pledge, about 400 K or not, you know and so I might be tempted given the dollar amounts that we saw on Bill Slide, you know, it's not clear Americans will even notice their taxes going up. The vast majority of them, they didn't notice when they went down if you pulled them. Right. So that might be a better starting point, get all that revenue back and then start doing the nice parts of the reform again. But forget when 99 and all the bad stuff.

WESSEL: Yeah, you notice I asked them what they thought should be done. I didn't ask them to predict what will happen because if I wanted to predict what happened, I wouldn't get five economists.

CLAUSING: They'll just extend it. Yeah.

WESSEL: I think that's a good I think there's a possibility for that.

BAKIJA: There is.

FELDMAN: So I'll give a non-rosy answer. I'm going to jump on the 199A bandwagon that was really put in to placate the small business lobby and it was really done for political purposes. And I think keeping the mortgage interest deduction restrictions.

WESSEL: Okay. And I'm the Aussie thing, as I understand it, they do have some decisions to make because it's going to its winding down. It is, by the way, the law.

FELDMAN: Was going.

WESSEL: To be extended.

FELDMAN: That maybe reevaluate whether they want to.

WESSEL: You know yeah.

FELDMAN: There wasn't much time given for governors to choose their vacations. And so.

WESSEL: Yeah, yeah. Okay, here's what I want. I propose we talked about a lot of different things. So help. If you could focus your question on something, you're welcome to ask the whole panel, but I'll just help me because a woman here, we have some mikes and then landline. And if you could identify yourself.

AUDIENCE MEMBER: Sure, I am. Storm sixes with Deloitte tax been to a number of these types of panels and there seems to be great agreement on getting rid of 199a, that that was one of the bigger missteps in the project. But as someone who deals with the Hill all the time, realistically speaking and politically speaking, as Kim said, it's very popular, every single constituent. He has small businesses in it. There is a very strong lobby for keeping it. Are there ways that it could be put guardrails in? Are there are there tweaks that could be made to it that would make it more acceptable rather than just getting rid of it Flat out? Because that seems fairly politically unrealistic.

ZWICK: One 199A reform proposal where you could change the deduction, I guess if you wanted to keep it and make it cost less and you could make it a smaller deduction. But, you know, there's also like there are lots of phase outs and phase ins of some of the other rules. Right. Like, you know, the wage and capital requirements there. Some of those could be adjusted to basically exclude more firms. I think there are a lot of firms that are on the barrier between like the specified service skilled types that probably shouldn't get it versus like other types of firms that for some reason like we think should get it.

Those could be tweaked to like basically shrink the number of firms that benefit from the preferential rate. We think some competitive thing is going on. I think awareness of the number of folks on the Hill who directly benefit from it because their business owners themselves would be a useful thing for folks to just sort of dig in to as journalists.

ZWICK: Yeah, I've I read that story. But this is to distinguish it from the state traders who are making their money that way.

GALE: The general approach would be not to cut the rate, which is what the deduction does, but to switch it to an investment incentive, which would be, you know, and to deal with the eligibility things that Eric mentioned. But dealing making it a rate cut just is a nonstarter from an efficiency perspective. So making it inefficient and investment incentive instead would help some.

WESSEL: Thanks. Len Burman.

AUDIENCE MEMBER: Len Burman, Tax Policy Center. Urban Institute. Question for Eric, which you emphasize your time at the short run effects on investment. And it seems to me there are lots of reasons to think the long run effects of, say, permanent full expensing and making tax Cuts and Jobs act permanent would be a lot smaller. I mean, for one thing, the expensing was phasing out in the proposal. So you have an incentive to move investment forward that you would be making a few years forward in the future. I mean, another thing is, even if that weren't in the law, treating any kind of tax law changed as a permanent change, as heroic as the tax change, the tax law changes all the time.

So you might want to hurry up and get these new tax breaks while they're in place. And then there are the particular circumstances of when the law was put in place. Companies had lots of cash on hand and interest rates were close to zero. And if you're thinking about a steady state, a steady state, when there is less money available for investment, you might get a smaller effect. So I guess that's a long way of saying, I'd like to know what you think about the long run effects.

ZWICK: Yeah. So there's several questions in there. Working backwards? I think so. There were a small number of firms with a ton of cash. And these are the firms I think I'm talking about where it's like supernormal profits and probably on the margin, this is not affecting their investment very much. But that's a relatively small number of large firms. But, you know, for aggregate investment, I think there's still a lot of scope for other types of firms to be affected on the margin by the incentives, the short run response that we observe. We then like infer sort of parameters and like run a model forward to see, think about what the long run would look like under different regimes. And when one is the phase out of expensing and if you do phase it out and it's anticipated instead of a 7% increase in capital, I think it's like 2 or 3% increase in capital, for example.

So it does matter a lot whether that incentive persists, right, In terms of the re timing of investment in that versus a permanent in the first couple of years, it's actually not that big a difference. And that's just an artifact of how adjustment costs kind of work. And the fact that there was like a five year reform and most investment actually has like not an infinite duration. And so we think we're on pretty good footing in terms of taking that short run response under different assumptions about how temporary or permanent would have been and trying to infer. But you're totally right that depending on what folks choose to do, the longer run effect is going to be different. And the one I showed was a permanent keeping it permanent. But we do in the paper, our full paper think about the temporary version and that would be it would be lower.

WESSEL: Just as a generalization, how sensitive do you think business investment is to the tax and tax rates and incentives vary a little. I mean, how do we think about this?

ZWICK: I mean, there's like it's like demand curves slope down, but it's not like super responsive, Like it's sort of there's some on the margin investment responses for sure. Super temporary things generate larger responses because like these things last longer. It's sort of like the first time homebuyer credit generated a lot of purchases in that period. Similar for firms, but we should overstate how responsive investment is.

ZWICK: Thanks. Let's go here and then you can take Wendel there in the back afterwards.

AUDIENCE MEMBER: Thank you. Meredith Singer with GE for Nova. Question about legislation like Ships and Science Act and the IRA, which have also come into play since the TCJA, a large companies like mine are, you know, interested taking advantage of playing in those spaces too. And since you didn't mention those two bills, I was just wondering your perspective on how those kinds of credits that have now been introduced through that legislation may impact your assessment of what should be done in TCJA reform?

WESSEL: That was that was the question I didn't ask because I wanted to turn to the audience. So, like. So yeah, what do we how do we think we see there's some effect, obviously, of these federal subsidies on at least on structures, maybe equipment eventually. Does that change what you think we ought to do with the TCJA, given those are already in place?

GALE: From my perspective, it's just more in the mix. I mean, you've got COVID, you've got cares, you've got the Rescue, American Rescue Plan, you've got.

WESSEL: That's backward looking going forward. Given that we've done all this incentive for some business investment, does that make you more or less inclined to raise taxes on corporations.

GALE: I thought the question was interpreting the evidence.

WESSEL: I'm trying to get away from that. I'm trying to be forward looking. I mean,.

ZWICK: When you think about some of these things...

WESSEL: Lots of things happened, right? Okay. We got that. So the line goes up after year 2019, and we don't know why that that.

GALE: I was I think the important thing about this question is that it broadens the debate beyond just what do we do with these specific provisions of TCJA. I mean, there are so many questions about tax policy. And actually the campaign trail is actually doing a good job of raising issues besides TCJA. They're doing a bad job of raising good issues.

WESSEL: But at least.

GALE: Raising non TCJA issues. And this raises the two that we should be thinking in 2025, not just about do we mechanically extend or alter each of these provisions that are expiring, but more generally take it as an opportunity to look at the tax system as a whole.

ZWICK: To the extent that there's no base remaining because of expensing or other deductions and the rates really low than like the marginal effect of like targeted subsidies can be lower. And so they kind of crowd each other out a little bit. And so, you know, we can't just infinitely push on this on a string for getting some of the things we want done.

CLAUSING: Yeah but with Chips and IRA both. It's more about the composition of investment. And I agree with Eric that if you can't give someone a corporate tax cut, if there's no corporate tax. So if you want to respond to climate and you want to do it with subsidies like those, IRA subsidies are really important. I think another thing that should be on the table going forward is, is a carbon fee which would turbocharge the use of those subsidies and further decarbonize the economy and help raise a lot of revenue in a way that wouldn't hurt households very much at all because IRAs bringing down electricity and utility costs at the same time that the carbon fee would someone raise them.

WESSEL: To be more popular with economists than politicians? Wendell.

AUDIENCE MEMBER: Wendell Primus with the Brookings Institution. Maybe following up on the last comment. If you have to raise money and we should, in my humble opinion, how would you go about it? High income individuals versus business versus something else. And then my second question, if you wanted to do something about housing. Especially production of affordable housing, how would you go about that?

WESSEL: Okay. You stumped the panel.

CLAUSING: I know I've got $3.5 trillion of revenue raisers in that Hamilton paper I mentioned. But the carbon fee is one of my favorites. And I made the case for higher corporate rates as well. I think on housing, I would like to see more emphasis on the supply side and zoning reform. One of the things that prevents people from moving or I guess this is Dan's presentation, is the high cost of housing in California has high taxes, but it also has really expensive housing. Right? So I think addressing this in part through zoning reform and other supply side impetus I think is really important.

WESSEL: Anybody else want to try that?

GALE: Just real briefly, the solution to the housing shortage is to build more houses. On the tax side, I have long favored the imposition of a value added tax, joining every other country in the world with some of the money used to be recycled to households as essentially a universal basic income. The combination could be very progressive. And then combined with that and maybe before that, we need to raise taxes on wealthy households. There's a variety of ways to do that, some better than others.

WESSEL: We own and I in a piece like just ran the hypothetical what happens if you roll back the tax code to 1997, which was not a time we think of like taxes, strangling the economy. It raises a ton of revenue and with no new ideas. I'm not saying all of those with like all of those things are good ideas for us. But like a big chunk of it is how much taxes have come down, not just at the top, which they have, but also in sort of the 100 to 400K of income range that we recently have decided is like another third rail. But like if everything is a third rail and tax policy, then we can't raise any revenue. So I think it's like we don't have to invent ideas either. We can we can sort of roll things back and move forward there on housing.

First time homebuyer credit is, you know, an interesting idea. I think in places where there's real constraints, it benefits sellers a lot. And but those are also places with super high prices. So it doesn't actually maybe move the needle that much in terms of affordability in places where there's a good supply curve, then it benefits those first time homebuyers. And so it could be useful in those areas, but I think. Coupling it with supply side stuff makes a lot of sense.

WESSEL: The federal government doesn't have a lot of levers on the supply side.

ZWICK: Yes. So there's got to be some way to essentially coerce local areas to change zoning rules through transfers.

CLAUSING: Incentivized that can't. Yeah, yeah.

WESSEL: Yeah.

ZWICK: Yeah, yeah. I'm a politician on shows. I like watch The Sopranos. So yeah.

WESSEL: I read one of my colleagues, Jenny Schutz, has written a book on housing, and there was this one paragraph which led me down a rabbit hole about proposals that George Romney made when he was HUD secretary to try and use federal money to get local governments to change. And some of it had to do with building codes, making building codes less idiosyncratic. But apparently, as I read a few clips, it became seen as a stalking horse for integrating communities. And that was the end of George Romney's term as HUD secretary. So just lesson learned as to over here.

AUDIENCE MEMBER: Hi, I'm Matt AX with Evercore ISI. And this is a question for Kim on the international piece. I'm wondering if you could please say a bit more about what the world looks like if the US isn't able to come into compliance with the OECD agreement, And that's obviously not the ideal situation but like how bad and how does that kind of play out? Thanks.

CLAUSING: Yeah. So we'll end up paying the US companies will end up paying some to foreign jurisdictions that could have been paid to the United States while facing a bewildering array of our own minimum taxes alongside these foreign ones. So we've got GILTI be cam to sort of three of our acronyms, but there's also the pillar two taxes abroad and this undertaxed profits for all, which will include US companies. Now, when you look at the net amount of payments that they would have to make, for many of them, it won't be that large because there are all these other things going on states the that would prevent those under tax payment abroad from being all that high. But then the question is, if that's the case, like is it just pride that's keeping us from reform? Because we could simultaneously simplify and grab some of the revenue for ourselves without really hurting U.S. multinationals very much at all? So I think even if I even if it's a Republican trifecta, I think that would be the smart thing to do, is to do that in a in a sensible way, you know, and I think the business community would support that.

AUDIENCE MEMBER: Hi, my name's Aaron. I'm a student at the University of Pennsylvania. And I want to tell you something that hasn't really been discussed today, which was how the teacher got rid of the individual mandate from the ACA. And I feel like that's something that kind of went overlooked today, as I was hoping to hear your thoughts on if you thought that was a good idea, bad idea. Maybe they should be reinstated. They shouldn't. Just thoughts on that.

BAKIJA: My understanding the evidence is that this didn't have that big of an impact, partly because it was offset by the increase in the premium credits enacted when Biden came in. And I think at least in among Democrats, there's a lot of support for sticking with this combination because I think the individual mandate, while it made sense, was very unpopular. And the reforms to the credit, I think, have largely mitigated concerns about how this would impact like adverse selection and people dropping out of the insurance market. So I think that's the political kind of compromise that we can get.

WESSEL: More carrot to get people in health insurance and less stick. Yeah, seems to have worked and it's a lot easier for Congress to sell now.

BAKIJA: Yeah.

ZWICK: You take a look at Weitzman 77 paper prices versus quantities and regulations. Good for grad student.

WESSEL: And what does it say?

ZWICK: Well, it's about like, you know, when you want to do quantity regulation versus price regulation through like subsidies and when it makes sense. And this seems to be a case where we got a lot of the way there through just subsidies that are actively price regulation as opposed to like a mandate, which is quantities.

AUDIENCE MEMBER: Kevin Corinth from the American Enterprise Institute. I have a question about the child tax credit, not opportunity zones, despite the, a coauthor on that paper. I guess my question on that is around the extent to which the 2021 evidence can inform the effects of a permanent reform. And I guess my question is, when is a plausible time frame that you think when parents would have actually understood the incentive changes and thinking that the American Rescue Plan Act was enacted in March of 2021, The checks were sent out starting in July, as late as September.

BAKIJA: The vast majority of economists didn't recognize the extensive margin tax incentive changes. And I can give you various papers to back that up. So parents didn't recognize the incentive changes till later in the year, if at all. To what extent should that inform what the effects would be of a permanent enactment of the 2021 CTC reform? Yeah, I think that's a fair point, that this is the biggest uncertainty about that evidence is what is the long run effect going to be? I think my sense is like the substitution effect, like what was the effect on the incentive? Like getting rid of the 15% phase in of the child credit. It's plausible that people didn't really understand that. It's more likely that they recognized they had more income.

So this might at least be evidence that the income effects are pretty small. And that's consistent with other evidence, like when what we learned from when people win lotteries and things like that, you know. So I think the best we can do is look at it in the context of the broader evidence. And I think things like the Clavin paper are pushing us in that direction. And I know there's disagreement about this, right? But I think there's back and forth in literature on this.

But I think that together with the international evidence is suggesting maybe we revise our estimates of how big that substitution effect, the response, the incentive might be as well. So I think your point is well taken, but I think overall, we're less confident there's a really big response to these incentives than we used to be, I think.

WESSEL: All right. But I just want to make sure I understand what you're saying. You're saying that he he's making the point that this is really complicated and we've created this ridiculous system with an ITC and a CTC. Yeah, And you're saying that? Yes. It's complicated. Maybe people didn't figure it out, but the evidence is that they have more money, so they might be better off and spend more. But whether it encourages more people to go to work is sort of unclear.

BAKIJA: Well, I guess I guess what I'm saying is people it was pretty obvious to people they had more money. Right. That wasn't causing them to work less. Right. It was less obvious to people that their incentive, their marginal incentive, you know, the extra sense they get from working one more hour, for example, because of this, credit had changed and been reduced. That was less obvious to people. So I think we learned less about that from the 2021 reform because it was short term, people didn't have time to figure it out. But I'm also saying we have other evidence about things that persisted for a much longer time that, you know, we're sort of revising our estimates of how much people responded to those.

GALE: We also have a paper from take a in the national texture who shows that even under strong, large labor supply elasticities, the impact of the expanded childcare on labor supply would be pretty small. And let me just trigger an added point that I think the emphasis on the labor supply aspect of the expansion of child credit is wrong focused. If you're getting money to those people, those families and the families decide that it makes more sense for one parent to stay home with the kids. That seems perfectly fine to me. That's them, you know, making their best choices given their circumstances. So I think the labor supply issue is sometimes used as kind of a red herring by people that don't want to raise the child credit.

BAKIJA: If I could add one other thing, which I forgot I was going to talk about in the presentation but didn't have time for, which is there's a growing body of evidence that transfers to families with kids that are low income, are producing long term benefits in terms of these people sometimes have good investments in the futures of their kids that they can't afford to make. So I think that's something that should also be taken into account in evaluating the costs and benefits of these kinds of reforms.

WESSEL: Just to put I'll get you back to Kevin just to plug a little bit. Heidi Williams of Dartmouth and Doug Elmendorf, Harvard former CBO director, have a paper in the forthcoming Brookings Papers on Economic Activity, observing that there are some things that we should do, can and should do dynamic scoring on, particularly things like investing in kids. Kevin wants to respond to that. So wait for the mic because there's people watching online. Tristan, could you bring the mic time to him?

AUDIENCE MEMBER: Just. Just. On the child outcomes piece the strongest happening. I completely agree. We should care about child outcomes. The strongest evidence we have is from the Earned Income Tax Credit, which requires work. And this reform would get rid of an EITC like provision and replace it with essentially a child allowance, no less good evidence on sort of the UBI child allowance as opposed to a work promoting credit. So I think it's unclear what some of the effects would be.

WESSEL: I think there was one more gentleman there.

AUDIENCE MEMBER: Yeah. Had question about the current role of the tax system in marriage incentives. I know Bill, you have a paper and have done some research on this. It didn't seem like TCJA moved these kind of dynamics too much. It's mostly, for example, programs like EITC that have the strongest effect. But are there opportunities to change, you know, those kinds of incentives in the upcoming debates?

GALE: It doesn't seem like the red hot issue that it was 20 some years ago when because of because of changes that have been made, TCJA did make some changes that I think eliminated most marriage penalties for couples with incomes under 600,000 or something like that. It doesn't seem like the, you know, the top of the top of the list right now is sort of stuff they have to deal with.

WESSEL: Great. So I'm going to call up Tim Taylor for the closing benediction. And so he doesn't have to say this. We'd appreciate it if you take your coffee cups and put them in the trash at the end when they leave. But I want to thank the panel for a great discussion.

TAYLOR: So I'm Tim Taylor. I am the Managing Editor of the Journal of Economic Perspectives. And for those of you who are academics, you know what that is. You know, academic economics is a is a small puddle. And within that small puddle, we're a fairly big fish. So people have heard of us that way. But there are a lot of people who aren't academics. And so what I was asked to do was tell you what the heck this journal is. There are nine journals published by the American Economic Association. Eight of them are pretty much research journals. So when people will say there's a recent paper on this, there's a paper on that, they're talking about the kind of thing where you would flip it open and there would be pages of mathematical formulas and modeling, there would be pages of statistical results and big charts and tables and stuff like that.

And there are, at this point, about 700 research journals of economics in the world. And the we're not one of them, but our job, as we were designed some years back, was to have one journal within the economics profession where everyone who had some economics background could actually read it. And I don't mean that lightly because a lot of journals, if you aren't already a specialist in the area, you're going to have a really hard time reading it. I mean, the people appear in their area. They're great. If you put them into a, you know, a macroeconomics symposium on modeling, you know, money flows or something. The mathematics and the statistics would be so different from what they're used to that they literally couldn't read the paper. I mean, they could figure it out if they had a free month or two to get into the background, but they couldn't read it.

And so the idea of my journal are I said it because I've been working on it a long time now, I guess, is to have someone have these folks write papers which aren't about their most recent research paper, but instead are What did we learn in this area in the last few years? What should we be thinking about going forward and have a little bit of an opinion about it? Not just to sum up all the studies, tell us what they really think about it.

And my personal job then is to take the first drafts they send me and to revise them in a very hands on way with that goal in mind and so on. My very hands on way. I mean, there are people up here who saw their drafts cut by 20 and 30 and 40% and more. There are people who saw their drafts rearranged in comprehensive ways. There are people who got, you know, we need to add a paragraph here. We need to subtract that I'm very hands on. So from the point of view, who those of you who aren't academics, if you're interested in some of these subjects and you have some economics background and we're not going to explain supply and demand, you know, we're not we're not the Atlantic or something like that.

But if you have a genuine interest in seeing what people who really know think about this stuff, then we're pretty good place to start and are starting. I must. It's more than ten years ago now. The Economics Association has made the journal free Online. It's not gated. You don't have to register. You don't have to sign up for anything. You just go to the website. And not only the current issue, but all the issues. Back to the first issue in 1987 are freely available to anybody who wants to look. So. So if you want to look, you know, it's not a bad place to start, then I have one more task up here, which is the official round of thank you's these folks appear. You might say to me, Tim, you might say, what's it like going to a bunch of academic economists and telling them they're writing isn't all that good? And that news is not always received with, you know, joy on their side. But often it is often economists do genuinely care about presenting stuff in a way that's broader.

And this group in particular was very willing to work with our stuff and, you know, go back and forth and get to a place where they were comfortable and we were comfortable. And in general, that's been my experience with the Journal. So I want to thank the authors for being willing to work with a very intrusive editor, which would be me. I want to thank the folks at Brookings for hosting this, not just the people you see up here, but there's people standing around the corner and stuff who really do all of the work. And there it's always such an easy place to come and give a conference. The internal staffing and support is just really good. And then finally the point of the journal was to, as we say inside is to have some cross-pollination across fields, is to have ideas spread more easily. And so we try and do that within the field of economics.

But a lot of you are not here because you're in the. Field of economics. You're in here because you have a broad interest. So you are helping us cross-pollinate across your fields as well. And so I appreciate you helping out in the Journal's broader mission. Thanks very much. Your coffee cups. Take your coffee cups.