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WHAT WILL TAX POLICY LOOK LIKE IN THE NEW TRUMP ADMINISTRATION?

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INTRODUCTION:

WILLIAM G. GALE
The Arjay and Frances Fearing Niller Chair in Federal Economic Policy, Senior Fellow, Economic Studies, The Brookings Institution

PANEL ONE:

WENDY EDELBERG
Senior Fellow, Economic Studies, The Brookings Institution

ELENA PATEL
Senior Fellow and Co-Director, Urban-Brookings Tax Policy Center, The Brookings Institution

DOUGLAS HOLTZ-EAKIN
President, American Action Forum

MODERATOR: RICKARD RUBIN
U.S. Tax Policy Reporter, The Wall Street Journal

PANEL TWO:

HOWARD GLECKMAN
Senior Fellow, Urban-Brookings Tax Policy Center, The Brookings Institution

MICHAEL GRAETZ
Professor Emeritus, Columbia Law School
Professor Emeritus, Yale Law School
Author, The Power to Destroy: How the Antitax Movement Hijacked America

MOLLY E. REYNOLDS
Senior Fellow, Governance Studies, The Brookings Institution; Senior Editor, Lawfare

VANESSA WILLIAMSON
Senior Fellow, Governance Studies and Urban-Brookings Tax Policy Center, Brookings

MODERATOR: TRACY GORDON
Co-Director and Acting Robert C. Pozen Director, Urban-Brookings Tax Policy Center, Urban Institute

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GALE: All right. Thank you and good morning. I'd like to welcome you to the Brookings Institution, the Tax Policy Center, and our event today on tax policy in the new administration. We thank you all for attending both people in person and those on the line. I wanted to kick off the conversation with a few kind of major moving parts of the tax policy debate and then talk about four possible scenarios before I turn over to our expert panels. But clearly, with Republican control, the White House and both chambers of Congress, tax policy will be front and center in the next administration, especially with the 27th, with major parts of the 2017 tax cuts expiring at the end of next year. So let me highlight six points, six framing points to think about. All right.

First of all, unified governments tend to raise deficits. We've had four unified governments this century Bush, Obama, Trump and Biden, each in their first term deficits went up in each case. I think it's fairly, fairly reasonable to think that deficits are likely to go up again. Second, having said that, the fiscal outlook already looks bad. Deficits averaging over 6% of GDP over the next decade. In the past, we've only got to that level in wars or economic crisis. But now it's basically a permanent feature of the landscape. And all of that is before considering any tax cuts. Third point, extending the temporary provisions of TCJA will be expensive and regressive. The expensive part is, comes to total about five trillion over the next ten years, the top 1% of households will benefit enormously. The bottom 20% will get about 2% of the benefits.

Now, that's just of the tax cut. There was an article in The Washington Post this morning that the Trump administration is considering cuts in entitlement spending as a way of financing part of TCJA. If you combine the extension of TCJA with cuts in entitlement spending, you're looking at the bottom 20%, the bottom third being worse off with that combination of policies then without either of those. So, the entitlement spending to finance TCJA would make it even more regressive than just the tax component. Fourth, Trump has proposed a variety of other tax cuts. I'm sure I will leave some out, but I've got tips, overtime, social Security, Expand the salt deduction, American living overseas, car loan interest, the core, cutting the corporate rate for domestic output, and you know, we could go around the room. I think there's probably more.

But these are basically be described as expensive and the opposite of what we normally think of as good tax policy, which is broadening the base, which then allows you to reduce the rate structure to raise the same amount of revenue. Trump has also proposed increased tariffs. We know two things about them. First, the evidence from the previous round shows that they're borne by American businesses in terms of higher cost. And of course, American businesses don't ultimately bear the burden of taxes, people do, and businesses pass through those costs to American consumers who end up paying higher prices for consumer goods. The second thing we know about tariffs as the revenue raising potential is nowhere near what's needed to finance more than a chunk of the very ambitious tax cut agenda that President Trump has put forward.

All right, the last point, point six, is that we can't ignore Senate rules, the budget process rules as we think about this, because the Republicans do not have enough votes in the Senate to withstand a filibuster. They'll likely have to use reconciliation for any partisan tax bill. There are a number of restrictions associated with reconciliation, which you'll hear about. And in the panels after me, the main one is that the provisions can't increase the budget deficit after ten years. So, with this combination of factors, I want to offer four scenarios. And I want to be clear; these are not the only scenarios. These are the only ones I can think of right now. And truth usually is stranger than fiction. And we'll see what they come up with. But these seem to be the four kind of canonical scenarios. The first is to go big. They might take all these tax cuts and try to do it on a permanent or a ten-year basis that would cost something like $10 trillion. That might be too high for some people.

The second is to go big but go temporary. And that is enact all these tax cuts. But only do it on a 1- or 2-year basis, probably a 2-year basis, which then just kicks the can down the road, of course. It doesn't reduce the ultimate cost of these policies. It's essentially a budget gimmick that reduces the recorded costs in the budget. The third option is to go with the long-term reform, but to be less ambitious about the particular features. So do a few or do fewer things but make them more long term or more permanent. And the fourth and I'd like to love to hear what the panelists have to say about this is what I call a sort of a combination policy, which the Republicans could take all the provisions that they like and the Democrats hate and stick them in the reconciliation bill, and then leave all the features that the Democrats are interested in and then try to build an additional bipartisan bill that actually meets the 60 vote criteria.

So, these are just ideas, these are scenarios and definitely more questions than answers right now, at least in my mind. And I'm hoping the panelists will prove me wrong and give me answers to all these questions. So, we have a relatively short but jam-packed agenda this morning. Our first panel focuses on the economics of tax policy. Richard Rubin from The Wall Street Journal is the moderator. The panelists are Wendy Edelberg from the Hamilton Project here at the Brookings Institution, Doug Holtz-Eakin from the American Action Forum, and Elena Patel from the University of Utah, who's also a Nonresident Senior Fellow here at the Brookings Institution. Our second panel focuses on politics.

Tracy Gordon, who's the Co-Director of TPC at the Urban Institute, will moderate. And then the panelists are Howard Gleckman at the Urban Institute and TPC Michael Graetz from Columbia Law School, Molly Reynolds home team and Vanessa Williamson, also home Team and Tax Policy Center. So, before we start, just some quick housekeeping. I'd like to thank the Rockefeller Foundation and Arnold Ventures for the financial support behind this effort. And thank Meg Waring, as always, for conference and logistical support. So, with that, Richard, let me hand over to you and the first panel. All right. Good morning.

RUBIN: Good morning. Good morning. So, we're going to try and talk in this panel about the economics of tax policy in the coming debate. And we'll leave the Charlie as much of the political prognosticating, too, to the next group. So, I wanted to start with something that Bill mentioned, which is the deficit picture now particularly opposed as opposed to what it looked like in 2017. How should that inform policymakers choices? You know, the fiscal situation we're in and where we're headed as they look at all these expiring tax cuts and we can just go. We'll go this way. Wendy, you get the first one.

EDELBERG: I believe the empirical literature that says that the more the federal government borrows, the less money there is available for private investment financing, private investment in the U.S., or the more we're borrowing from abroad. And that lowers GNP relative to GDP. I believe that literature. So, I absolutely believe that increasing deficits makes our economy smaller. And in that sense, I think it's you know, you can choose to finance all of your spending priorities through deficits and just recognize that this is a particularly expensive financing mechanism relative to well done tax policy that will leave more money available for private investment. And if it's well-done, you know, it has the smallest economic cost among all of the different kinds of tax policy.

So, I see it as a as a tradeoff, which is to say I am largely putting aside how an increasing deficit leads to increasing risk of a fiscal crisis. I think that's a political issue much more than it is like a direct line between the deficit and a crisis. With the caveat that I think if policymakers appear to be having a completely unserious conversation over the next six months along the lines that they'll get all just laid out of like, you know, let's not tax tips and let's not tax overtime. Let's not tax Social Security. And it just looks like the deficit is ballooning. I think that puts you in that in the range of political, like very misguided political missteps, creating a risk of a fiscal crisis.

HOLTZ-EAKIN: So, we have two big problems. One is poor trend growth, and we'd like to grow more rapidly. And the second is big federal debts. And T.J. lies right at the at the intersection of those. And the tax policy initiatives can be central to it. I think that gives you some boundaries for how you want to think about the outcomes. At the minimum, they should think about this as don't make the problem worse, which essentially means use current policy as the baseline and pay for anything that you do, which adds to the deficits. Off a current policy baseline that would include everything in the Trump handout to that as he as he campaigned.

And that's a lot of money. They have to figure out ways to pay for that. The gold standard should be do a deficit neutral reform off the current law baseline, and that's the gold standard because it begins to address the fiscal problem and the outlook you can't really address without bringing the spending side in, but you can begin to address it. It also allows you in reconciliation to make any pro-growth tax policy permanent, and that would allow it to be more effective. And that's what you'd like to do, have an effective tax reform that promotes growth. So that's sort of the territory I hope they land in. Bill's senators didn't include that territory, so we shall see.

PATEL: I just want to pick up on the notion of gold standard, which I agree. I think we've been talking about for at least a decade now, if not longer, just the notion of deficit neutral tax reform. And there are plenty of great ideas in that space that have been debated here at Brookings and sort of across the D.C. area and what that means for pro-growth, tax code that works for American families. And so, I hope that unified government will result in sort of coordinated conversations about deficit neutral tax reform, which, as Wendy said, that's not in any way part of the conversation right now. It makes it very hard to take serious anything that's being chattered about the tradeoffs that we face that are very real tradeoffs at the end of next year.

And so, I hope that the conversation is going to be really cognizant of the fact that a full extension of the TCJA will cost $5 trillion. It cost about 2 trillion last time. We're at 5 trillion now. And again, I just hope that Congress will take that very seriously and continue to rattle the cages about the deficit situation that we're in because we don't know where the tipping point is at which that becomes a problem. And we know we're on a bad trajectory. And I think sensible tax reform needs to be cognizant of both the benefits and the tradeoffs of what's coming up.

RUBIN: A couple of you mentioned trying to do pro-growth tax policy, and I talked about this before, but you know, of the things that are on offer in this in this debate, you know, you know, it's knowing that Republicans are in charge. So, they've got their menu and Trump's menu to work from. Is there what are the pieces that are growthiest and what are the pieces that are less growth? I guess start with start with Doug and we're back.

HOLTZ-EAKIN: Well, these are the least growth things. That's anything that Bill listed that the president elect proposed on the campaign trail. There's no growth in any of that. So those are not the direction for a serious reform in 2025. Places you should go would include, first of all, provisions that they did not make permanent last time but have the opportunity to try to do. And that would be expensing of investment, expensing of R&D. You can also shorten that the depreciation lives on structures which would have some beneficial impacts.

The what you're trying to do there is make sure that if you expense everything, you can improve the productivity of your workplace, either by making your workers better, train them, you can expense that buying equipment, you can expense that innovate, that's the R&D, you can expense that is on a level tax playing field. And that's what you'd like to do is get that get taxes out of that decision. They could also start some more serious base broadening after a lot of base broadening on the table last time.

One that I think is long overdue is to take the interest deductibility away entirely because if you expense everything and then also allow the interest deductibility, the effective tax rate on the return to capital is negative.

I've lived my entire life in pursuit of zero, but negative is a bit too much. So, you know, that could be a sensible base broadener. But there's a lot of things out there. And so, you know, a broad base allows you to keep rates lower and that that in the end is the ultimate objective to get the tax code to interfere less with anything, including incentives for growth. And for the record, the most powerful single impact on growth is the corporate rate. I mean, that's what the empirical literature tells us. I think the U.S. is doing great at 21. I'm a big fan of the 17 corporate reforms. I think they were the best part of that of that law, that 21 I view as good. I have a great imperative to do what the president-elect has said, which is move it to 15. But that would be on their list, I'm sure.

PATEL: Alan Yeah, I think the growthiest, is if that's where we're starting.

RUBIN: If we can make up words with our panel.

PATEL: I love it. So, the growth is placed, I think most people think about is exactly what Doug said. We have to think about business tax reform, which, you know, once again, just to bring up the tax debate of 2015. This was central to that. And that includes very high on the list as how the tax code treats investment expenses. And I need to say it that way because sometimes people hear that, and they think tax loopholes, and these are not tax loopholes. This is about the timing of when you are allowed to recognize expenses for the cost of business and moving that to 100%. That moves the U.S. tax code in line with much of the rest of the world.
And that is, I think, the number one pro-growthiest, best thing that can be done. It was part of the early TCJA that kind of petered out. That was sunset. It's gone now. I know it's a top priority for Congress. It was part of the sort of trading safety net for business expenses deal that emerged, I want to say, late last year that died. So, trading the CTC for some business tax reform and that actually I think can lay a blueprint for trying to balance the priorities of both sides of Congress, where there are business changes that I think are sensible to be made that should be paired with ensuring that there is a robust social safety net system in this country. Notice that what I'm not saying is individual tax cuts. I think those are the bulk of the expense. And we sort of as a country have to decide how much

tax revenue we want to have. But I would not generally call individual tax cuts growth. I think they're politically palatable. People like them, but they are not the thing that will kickstart the economy. I think things that are business centric paired with safety net reforms are what should be the conversation here.

EDELBERG: Can I I'd like to reframe this a little bit in that question. Well, I'm going to get there, which is, I think, the most pro-growth-thing that we can do with our tax code is raise more tax revenue. And so, then you want to raise tax revenue and then you want to actually raise that tax revenue in the least, you know, damaging way possible, the least distortionary way possible. I think that's the right way to think about tax reform. If you ask me, where can we expand the deficit in ways that give us the most, you know, juice for the squeeze? Yes, I can answer that question, but like there's lots of things I'd like to do if we're allowed to expand the deficit.

And, you know, so, yes, I think we should do things that that create more economic activity that we like that wouldn't otherwise happen. And, you know, there's evidence that like subsidizing R&D can do that. I would also put in there expanding the ITC. I also think we should be we should be alleviating child poverty and expanding the child tax credit to people who, you know, kids who are who are the poorest in the in the U.S. But to answer that question, I'm I think the question really is, if you're going to expand the deficit, what's the way to do it that gets you the most juice for the squeeze in terms of economic growth? I think first and foremost, if we wanted to make our economy stronger and grow faster, we would just collect more revenue in a in a in a clever way.

HOLTZ-EAKIN: I just wanted to make sure, I left out, is that, you know, one of the really hard things that they will have to struggle with is the fact that more than one half of business income is now taxed on individual returns as these pass-through entities, Subchapter S Partnerships, LLC, those entities. And so, the individual rate structure is in part a business tax issue now. And how you negotiate that terrain, I think will determine how growth it is. I hate that word for the record. And also, just how efficient you're allocating the capital across the economy that the 20% deduction that they came up with in 2017 was a brilliant solution to some problem, I don't know what it is. That's a that's a place where you do a lot of improvement. I don't have I don't have a special one that I favor above all others, but that's the place to really look.

EDELBERG: And I want to make an amendment to his amendment, which is amendment That. That not a thing.

HOLTZ-EAKIN: I don't know. I hear it's. Brookings, which is, I think maybe.

EDELBERG: What another way of thinking about what's pro-growth here is if you wanted to do revenue neutral tax reform, how would you change the tax system to. Increase economic growth. And there, you know, I think Elena got to it, which is like let's increase the individual tax rate and lower other tax rates in a way that rebalances thing that increases growth. But then I challenge Doug to say, okay, these are all of the things that you want to do to like subsidize things, to increase growth. Where do you want to raise revenue to pay for them?

PATEL: I have no amendments.

RUBIN: Yeah, well, actually, you want to come back, you see how. Is there a good way to deal with the fact that there's so much business income on the individual side? So, you know, when 99 cap is an attempt to deal with it, but if the things you said before the goal, you get more growth out of things that are encouraging business investment but not on the individual side, how do you deal with the fact that we have so much business income on the individual?

PATEL: That's like the million-dollar tax reform question, like the growth of passive.

RUBIN: If it's just a million, it's probably a couple more zero.

PATEL: I totally agree. I mean, I think it's a perversion of the US system in some sense. Like we've gotten ourselves back into a corner that so much business income is showing up in the individual return. It actually makes it really hard to think about like dealing with the progressivity for returns to labor wages as separate from business income that's showing up on those returns. And so, I'm going to be like David Camps fangirl here, but I just can't I can't say enough that I think when we were thinking more fundamentally about how to reorganize business income in the U.S., corporate income right now is a small share of tax revenue. But that's because so much business income shows up on the individual return.

And, you know, unified government is really the only hope that we have of thinking hard about whether this is the system we want in the U.S. And if there isn't some way to get away from that and to tax business income under one system separate from returns to labor, I just think that organizing the tax code but require so many fewer sort of, again, we call them loopholes. I don't actually think usually there are loopholes, but special rules to allow for wage income being treated differently than capital gains or business income that's showing up in the individual returns. That's why our code is so complicated. And so, I don't think I actually think we have the answer to this question. We've been thinking about it for many, many years. We just need the political will to kind of reorganize and reorient the U.S. tax code to keep business income separate from individual income. Once you do that, it's actually much easier to target things.

RUBIN: And you mentioned special provisions. One thing that's on the chopping block are a lot of the special provisions created in the IRA two years ago to create incentives for clean energy development, clean fuel development. What you know, I guess to start with, let me just sort of talk through what are the potential consequences of repealing those and how should policymakers think about the sort of pros and cons of those kinds of targeted incentives and what they've got to look at, what they've done over the past couple of years in the economy and how people should think about pulling them back or repealing them or not.

EDELBERG: I mean, we get a little bit into political prognostication here because I don't think that'll happen. I think it's a popular subsidy. I think the risk of it is that those subsidies or carrots are part of a long-term strategy which may sort of be working about our energy transition where you, you know, we seem to be we like carrots. We're using a lot of carrots to make clean energy really, really cheap and to grow the kind of clean energy sector. And then presumably the sticks will come where the less clean energy is than is then penalized. But those, you know, those penalties are less painful because we've made clean energy so abundant and cheap. So, you know, I worry about disrupting that long term transition, but I also don't think it'll happen.

RUBIN: That so I'm of, I don't think it's a climate strategy, it's been successful at all. And I've been disappointed at the at the structure, the effort and the detail. So those clean energy credits. You know, you can sort of think of doing it a couple of steps. I mean, step number one would be to rationalize them so that there's some sort of a common emissions avoided per dollar of tax credit. But right now, they're all over the map. It's one of the least efficient things you could do if you're worried about greenhouse gas emissions.

That's step number one. Step number two would be to actually get rid of ones that are not going to be necessary. We essentially bought out the base on a lot of this. Right. That there's some wind and solar that was going to happen anyway. And we're giving them investment tax credits and we're giving them production tax credits. And it's all super expensive and not really changing that trajectory in a substantial fashion. So, I think they're fair game because I don't think it's working as a climate strategy and it's a terribly inefficient way to do it if it is.

PATEL: Yeah, I think that the IRA definitely goes against the ethos of broaden the base and lower the rate, right? We introduce so much complexity with the IRA. I am in Wendy's camp and that I think it's politically infeasible to roll these back at this point. There are sort of fixed costs that are underway under the assumption that these credits will be around.
And again, like from a business stability environment, I mean, I think what's so hard for American businesses is kind of the whiplash of what's deductible when. Might it go away next year? How should I be responding in terms of how I plan these very large, lumpy, expensive investments? And so, I sort of try to take the high road in this case where I think the IRA has its problems, it was way more expensive than it was initially estimated to be. I wonder if we thought it cost $1 trillion at the time that it was proposed if it would have passed. I think that would have forced more real conversation, as Doug said, about how can we spend dollars to make progress on this goal that I think is really important, which is aligning the U.S. economy with a clean energy trajectory.

And, you know, somebody told you can spend $1 trillion to do that. I'm not sure they would have said, let's do this through the IRA. I think that the IRA was appealing at the time because, you know, new credits are hard to estimate the cost of. I don't think that there was anything shady happening when we thought maybe they would cost a lot less. I think we just underestimated demand for this type of investment. But then again, now go back in time and say, I'm going to give you $1 trillion to do this. I don't think the IRA is what would have come out of that conversation.

RUBIN: Have we reached sort of the limits of tax credit policy? Right. Like so, you know, it's been 25, 30 years of I don't see Gene here, good, but like you know of tax credit upon tax credit refundable tax credits as ways to offer incentives and ways to do spending like is that have we sort of it was the IRA the limit of that and are there you know should we sort of shift back to more of a broader base, lower rates, and if we want to spend things than spend on the spending side.

EDELBERG: I mean, you have a two-part question there. Have we, and should we? I mean, surely, we have not found the limit of how to operate all of our spending priorities through the tax system. I just can't believe that because we still have federal spending.

HOLTZ-EAKIN: When he's right, there's room for more. And it's in their imagination. Yeah.

RUBIN: So, this is the Tax Policy Center, not the Tariff Policy Center, but. Well, you know, we'll go there. What are the potential consequences? How are you thinking of the potential consequences of tariffs? And is there a, you know, more limited way to do them that would be a little less consequential, I guess start with Elon on this one. But how should how should, you know, lawmakers and the public think about the coming potential tariff regime and how impactful and significant it would be?

PATEL: Yeah. I think there's a couple of lanes of thought that kind of relate to tariffs and how we deal with the way that we tax imports and exports. This conversation started on the campaign trail as a revenue raiser, and I think that everybody on this stage will agree that's like a laughable place to start with a tariff. Right. Tariffs can work in a couple of ways if you're trying to use them as a negotiating tool, which is, I think, actually what the administration means when they're talking about tariffs, I think they mean the threat of tariffs rather than actually implementing big, broad-based tariffs. That's very different than the notion of raising revenue. And maybe, for example, again, a second line is US tariffs are going to magically rebalance U.S. net imports, which again is not true.

So, none of those things are true. I think that tariffs should live in a lane if we're going to talk about them as being paired with an export subsidy. Again, I got to say like 2015, 2016, and we can talk about destination basis in our tax code and a tariff that's paired with an export subsidy, again, is the way that most economies in the in the world work. The U.S. is an exception to this. These there are different reasons why a destination basis had a bad name in 2016. Some might say that, you know, advertising is everything and we need a different acronym for how to bring a destination basis to our tax code. But if you were to pair an import tax or a tariff with an export subsidy, you in many ways get the magic Band-Aid fix. For all of the problems with the U.S. tax code and the incentives to offshore things. Things can come back to United States. We can gain a little bit of revenue from the imports will probably balance that with the subsidies for the exports.

The U.S. is a net importer right now, so that will raise revenue in the short run. But again, we can't be a net importer forever, right? We just happen to be a net importer right now. And so, the allure of the revenue you should think of again as a temporary conversation rather than a long-term permanent solution to solving U.S. tax revenue. It will not come from tariffs. And I think people should just put that conversation down.

EDELBERG: I think one way of characterizing your, you know, very like your very clear explanation of how you can use tariffs is in a in a targeted way to solve a particular problem. And I think that means that tariffs should be in our toolkit. But if we're talking about double digit across the board tariffs, I worry about using them as a negotiating strategy because if you make a credible threat that you're going to impose double digit across the board tariffs, you're going to get a business response or you should get a business response of businesses are clever long before that tariff is actually enacted. And in fact, we're already starting to see evidence of importers hoarding as they should be if they have warehouse space and the like.

And they can import more stuff; they should be importing it. And what that's going to mean is tangled up supply chains long in advance of the tariff being enacted. And of course, then, you know, even worse once the tariff is enacted and why our supply chain is going to get tangled up because some firms are going to hoard and other firms are going to be less lucky in that race. And that's going to it's just we're going to end up seeing empty shelves and we're going to end up seeing price spikes and, you know, in this in Trump's glorious world, all of the U.S. importers renegotiate their contracts with the foreign exporters and demand lower prices.

And that will happen to some degree. But that's a that's a painful, expensive contract renegotiation that is now going to be happening across all U.S. imports. And then if you can't renegotiate that contract, are you going to actually try to move it to a different firm or are you actually going to, you know, a different foreign exporter? Are you going to try to move your, you know, you’re sourcing to something that's domestic? We are talking about the potential for short term. I you know, I'll give you short term, but significant chaos.

HOLTZ-EAKIN: So there have been three categories of proposals that I've noticed. One, China, and there is bipartisan support for tariffs on Chinese on China. And I think that will happen and it will. It won't have great consequence. We saw it before, and we'll have some there'll be a lot of trade diversion that comes out of it. And we'll see a lot more products floating through Vietnam, Mexico or whatever and get into the U.S. So that that's just a distortion and we'll deal with that.
There's the notion that somehow you can put a tariff on John Deere products because they have the temerity to manufacture them in Mexico. I don't think he has the authority to do that. We've had an awful lot of authority. But he'd have to declare some sort of John Deere emergency to pull it off. And I don't know, maybe John Deere is an emergency. I don't know. But you know, something like that. Then there's this across-the-board notion. And if you just think about it for a second and sort of, say, okay, it's a tax, what do we think about this tax? Well, it's a highly distortionary tax. It's a partial sales tax that will easily move people across the line and change their purchasing patterns. That's the last thing you want the tax to do, hit a highly elastic margin.

That's what it's going to do. Is it, is it a fair tax? What do you think about the incidence of it? Well, the incidence is going to on U.S. consumers is highly regressive in normal circles would be like it's not that outstanding out way to go doing it. And then there's the administrative costs, which I think look really high. It is not that easy to actually run this kind of a tariff regime. And there are going to be all sorts of special pleadings to get exemptions from it, and you'll end up being riddled with like Swiss cheese will be even more inefficient. So, it's not a particularly palatable tax to use as the threat. And if it's being used as a threat, I don't understand the bargain that I think he thinks he's in because it's he has to do a multilateral thinking about this and he doesn't negotiate multilaterally. He's a bilateral, as he thinks, thinks bilaterally, makes deals bilaterally. And this isn't the tool he needs to do, what he thinks he wants to accomplish. I don't think the retaliation will be immediate and significant damage to global growth. It'll damage U.S. growth. And so, this is, I think, the most problematic thing that he's proposed across the board.

RUBIN: Speaking of other things, he's proposed the bill mention the no tax on tariffs, no tax. And over time, I think that electric generators and Social Security and car loan interest and what a.

HOLTZ-EAKIN: Tax credit for caregivers.

RUBIN: Right tax something for caregivers. Which of those? You know, in those cases, right. When you don't take something, you get more of it in some cases, but you also get shifting of existing behavior or you're just rewarding existing behavior until you pick one and kind of, you know, each of you can kind of pick 1 or 2 or whatever you want and sort of talk about what you expect the economic effects to be of kind of taking out a big chunk of the tax base.

EDELBERG: I'm going to do the easy one, which is tax on tips. Which is, and the last version I heard of this, they were going to try to be a little more clever and say only no tax on tips in certain sectors. So, I think you have to be part of the leisure and hospitality industry. And I would really hope that Brookings would figure out how this is actually all this is leisure and hospitality. We have created an event for you all. And my income is thus tips.

PATEL: Is taking tips if you have Venmo. She has Venmo.

HOLTZ-EAKIN: And this is on top of my day job. So, this is over time for me. Here's what do you want?

PATEL: Boy. I mean, I think Wendy's right. The easiest one to pick apart is a tax on tips. But I think that the question raised here is like, how are people going to game the system to take advantage of the fact that you're carving out bits of the tax base to do this. Turning to overtime, I think that there is like a, a sympathetic reason why you might want to avoid tax on overtime, just like a sympathetic reason why you might not want to tax tips. However, again, at least the Trump administration of prior iterations has not otherwise shown a willingness to engage in executive orders and rules that might expand the base of people who can claim overtime. And again, what can be classified as overtime? I would like to say this is my overtime rate now, and it's not quite that right. But we don't want people to be distorted by tax policy.

And I think most importantly, every single one of these sort of campaign promises, and they happen on both sides. To be clear, this wasn't just Trump. Kamala also endorsed the no tax on tips. We saw this pop up in Congress. There were suddenly legislative language around it, which for the economists in the room, everybody sort of like slow your roll, everybody relax a little bit. This is not good tax policy. We're talking about broadening the base and lowering the rate.
And every single one of these is a very particular sliced carve out that doesn't benefit that many people and will cause distortionary behavior. And so, I think you can imagine how that happens for tips. You can imagine how that happens for overtime. Social Security is a little bit of a different question. But again, there are good reasons why all of this income should be in a broad base, and everybody should be pushing hard against the notion that we're going to create special carve outs when you're, in particular, states that tend to be highly taxed, for example, because they have tip income.

HOLTZ-EAKIN: So, no tax on tips is just a gimmick and was a campaign gimmick. I have been on a campaign and defended a gimmick called the gas tax holiday. So, I understand tax gimmicks. That's all that is. There's a there are two things I want to mention that I think are more serious about the tax policy effort next year. Number one, the existence of these various campaign promises makes doing real good tax policy harder. He has created constituencies for all of these. And if you're doing, you know, tax policies and analyzing generating losers and they're always angry about it and some of these will be angry losers as well, make it harder for Congress to get to two to a decent bill so that as a general matter, it's an issue.

The one I'd like to flag is the notion that you want to loosen the cap on the deductibility of state and local taxes. This is, again, go through the list is just an efficient thing to know. The deductibility distorts the revenue and financing at the state and local level. That's in the data. You do more deductible means of finance and less nondeductible means like fees and other things. And so, you don't want to be messing that up. You want things financed in an efficient fashion. It also may increase the size of government. That's if your proposition in the empirical literature, you don't want an infinitely large government. And if you look at the fairness of it, well, this is a handout to the most affluent period, and so those should disqualify it. But it also was the most significant pay for in the 17 bill and allowed for a lot of the other things that people think are valuable to exist and to get rid of it, I think is just an enormous misstep from the point of view of getting to a good bill.

RUBIN: I'm going to play make-believe now, you know. We're going to get even more quickly. I want you to imagine that you've got 2 to 3 minutes to speak to the president elect about the agenda for next year and kind of offer some economic advice on what he and what the next administration and next Congress should do on taxes, you know, knowing who knowing the audience. But like, you know, what is what is kind of a concise message that you could, from an economic perspective, deliver to this incoming administration. We'll start with start with on and then come back down this way.

PATEL: Okay. I don't care when.

HOLTZ-EAKIN: He's giving me a look like I don't want to do that.

PATEL: So, my understanding is we need pictures. I don't have any pictures to deliver this message. But I would again, just echo things that I think we've said on the stage all along that I think that there is an opportunity for fundamental reform that can be deficit neutral. I really believe that deficit neutrality should be the goal of any tax change that's coming at the end of next year. It's going to involve tradeoffs, politically unpalatable trade, tradeoffs. I think the rate cuts were far too large. I think things that people will be unhappy about need to happen. Thinking about the salt cap, thinking about the mortgage interest deduction. We have a real housing crisis in this country right now. I have yet to hear the Trump campaign or the Trump administration deliver anything concrete about what the federal government may do in that realm.

But I sort of see everything is on the table because the TCJA is about to expire. And so, I would lobby hard for sensible spending, which is what we're talking about in terms of the timing of revenue. On business tax changes that I think need to be happened things tightened during the TCJA that probably could be loosened in a way that would be growthy. If we're going to bring our favorite word back up. Doug's very happy. I can see it. But I would again, I would just pair that with the need for thinking about ITC as important spenders. I think something that gets lost is that spending on children, the revenue that comes from that happens way outside of the ten-year window, right? So, we never get to count those dollars. If those children are better off and they're earning more, that's going to increase revenue later on. And under a reconciliation bill that those dollars are lost. But they should be part of the conversation.

And I think there are Democratic and Republican priorities that can balance out in a deficit neutral way. I think what needs to be put aside is the notion that we need large scale individual tax cuts and that we need to leave these large deductions on the table. I think that the base broadening and lower rate in a way that's business friendly is the way to go.

RUBIN: Doug.

HOLTZ-EAKIN: So, Mr. President, you were elected because people believed that they could see better economic growth, higher real wages under your tenure than under your opponent. And if you caused the bond market to completely freak out by having extraordinarily large deficits, write off the start for an unwise tax bill, you will undo that promise and very quickly and there'll be nothing you can do to control it. So, he has to be cognizant of the deficits just to be cognizant of the fiscal outlook and that that shapes what you can try to accomplish in the in the in the tax bill. So, the first step is always do no harm. Preserve the things you did in 2017 that were beneficial for the business community and the investment outlook. Make them permanent.

Whereas where that where you can as I mentioned and then and only then can you think of paying for additional growth incentives by broadening the base and thinking, keeping in mind that broader base, lower rates, you can get to 15% on the corporate rate, but you're going to have to broaden the base considerably just as you did to get to 21. That'll be beneficial for growth, but you've got to keep the bond market in check while you do it. And that's the strategy.

PATEL: All right. So, the first thing I'd say is walk back the across-the-board double-digit tariffs, walking back in. Walking back immediately. First thing I'd say and, you know, give all the reasons that Doug laid out. The second thing is, I would say I think that bond markets will basically be fine if, and I can't believe this, but if the if all of the lower tax rates and the Tax Cut and Jobs Act were extended, I think that they would just swallow that $4 trillion increase and kind of move on with slightly higher interest rates. But if he creates a more unserious conversation, I think he does risk that that freak out. But then the other thing I'd say is you want the Federal Reserve to be independent.

And I would try to hammer home that all of the all of the these increases in deficits that he's talking about are going to raise rates and he's got to let the Federal Reserve respond. And if he endangers Fed independence, he's going to have all of those same problems that Doug just highlighted where he's going to endanger future economic growth. And then because I've got his ear, I would talk about how immigrants in this country, even the undocumented ones, are completely outside the system, are really good for the federal budget. And mass deportations are not only going to be bad for the federal budget, but pretty cruel and disruptive to the US economy. So, you know, I would suggest that he walk that back and like, you know, do some narrower things that get him some political points.

RUBIN: One more for me and then I'll take 1 or 2 from the audience here. This one is actually from a question submitted ahead of time. It's a combination of a couple, which is when will people start to see the everyday effects of this of this tax agenda? And what sort of expected effects do you expect to see on the mortgage and housing markets? So, you know, you don't all have to answer it, but if anyone has any thoughts on that would be great.

EDELBERG: I think interest rates continue to rise and that increases mortgage rates. And we probably see that pretty quickly and we certainly see it. We certainly see the ramifications of the tariffs stuff pretty quickly if he if he stays committed to that.

PATEL: I agree with that. I mean, I think that we are still kind of scratching our heads about mortgage interest rates right now. And I think some of that is the market is pretty uncertain about what's going on right now. And so, where we were expecting mortgage rates to come down in the last few months with Fed rate cuts, they have not. In fact, they're going back up again. And so, I think things happen immediately. The markets react pretty quickly. And so as soon as the markets get a sense of what's happening, which, by the way, the range of things that are happening is not just the four options that Bill laid out. There's probably 25 different paths we could land on right now. And I think that the sooner that starts to crystallize, the markets are going to react immediately.

RUBIN: Do you have any questions. In the room? We have on the way for the microphone. Let's try and keep this to questions as much as possible.

AUDIENCE MEMBER: You know. My guess is you all must be very frustrated, if. Nothing else, because I've been thinking for. Years, I've been hearing you all say basically the same kind of principles and using the same kind of reasoning that used today. But, you know, this is a serious question. I think a very important one. In today's world where sort of ideology seems to be driving the conversation. Why should we believe or why do you believe that reason, facts, etc., actually have salience? And if they do. How do we, how do we get them into. I mean, like you're talking to the guy and sort of your two-minute pitch to him. Why do you believe that even having that two minutes wouldn't matter? And how do we how do we work in an environment, in an economy where we are even asked questions like this?

HOLTZ-EAKIN: So, I think there are two pieces to the answer. I mean, first of all, you know, I've dedicated my adult life to the notion that better educated policymakers make better decisions. There's no empirical evidence. That's true. So, with that background, number one, results matter. In the end, results matter. And good economic results stem from good policy. And the reverse is also true. Bad policy will generate bad economic results, and they will care about that. And so, you can't ask them to care about the policy principles or the design constructs or things like that. But you can ask them to believe in the results because they need to, and they want it.

And then the second piece of it is I have always felt it is my job to make good policy, good politics. You simply cannot ask a politician to put the politics aside and go do the right thing. That that doesn't that's not even a sentence in that in his or her world. And so, you have to find a way that doing better economic policy is good politics. And that's often quite hard. And that's where we are right now. It's very hard. But that that falls, I think, to us, where we are interested in policy, we should make our policy interesting to the people who are going to have to eat to pass it and use it.

RUBIN: Other questions. Yeah. Mike front's coming in.

AUDIENCE MEMBER: Yeah, right. Yeah. My. My name is John Stratton. I'm previously from the IMF and the World Bank, but now I'm just presenting myself. I have two issues I want to raise which are not really so much related to Trump, but more to the discussion among these people here. The first is I fully agree that we want to have a tax system which is non distortive and gives that as much as possible the possibility for growth. But then the first obvious issue then is to implement the carbon tax. Right. But nobody's been talking about that. I guess this is this is like a curse word in this country to talk about it. If we had a carbon tax this is IRA would essentially have been irrelevant in this context because we would have sufficient stimulants of the renewable energy and things like that from the tax itself. And there's a number of ways in which to repair whatever damage is done to the poor people, right, with the revenues.

The other issue I just want to mention is this issue of the it was raised the issue of the problem of the business tax. Much, much of the business income is in the private sphere right. Now, I'm from Norway and Norway has a so-called dual tax system which kind of. Deals with that. Issue. And I would then sort of proposed the need to have a dual tax system also for the US where the income tax is in two parts. It's one part for the work income.

RUBIN: And the other part for capital income which is different from we. We just have less than a minute left. So, if anyone wants to comment on either carbon taxes or the Norwegian system.

EDELBERG: Not the Norwegian system, but so superfast, we don't have a, we don't have a consumption tax, we don't have a carbon tax. Those are both highly regressive. And so, you have to believe you have to have faith in your government that they're actually going to undo the regressivity of that. And I think we just don't have enough faith in our government to believe that they'll do it. And so, I think that that's why they just don't get in the action here.

HOLTZ-EAKIN: I guess I would just say that at least for purposes of the 2025 exercise, we should focus on working within the TCJA box. You know, there were attempts at destination-based cash flow tax in 2017 that started well before the debate, and they still were insufficiently socialized and understood to get close to adoption. And we have no time. And so, I don't think we have, we should think about next year the opportunity for a radical reform of that of the tax codes, maybe a business activity tax or something like that, that's off the table. You're going to have to have something it's within the confines of what we've got right now.

RUBIN: Great. Thank you all and thank you to Eleanor and Doug and Wendy for a good conversation. And the next panel is coming up.

GORDON: Good morning. I'm Tracy Gordon, co-director of the Urban-Brookings Tax Policy Center. As Bill said this morning, I am delighted to be with you here today to talk about the politics of taxes in the new Trump administration. We have an absolute rock star panel, and I encourage you to check out their bios online. I won't waste time with them here. Except Michael did ask me to say that his book is for sale outside in the Brookings Bookshop. So, I feel a little bit like Jerry Seinfeld's dad that I got a lot of questions for you people. So, let's jump in. Molly, you literally wrote the book on reconciliation. The reason that we're all here today, because of the expiring provisions of the 2017 tax law and the main vehicle for addressing those expirations, as we heard. So, can you at a high level remind folks how reconciliation works? What are the advantages of using it? What are the pitfalls and how do you think Congress is going to use it this time?

REYNOLDS: Absolutely. It's great to be here with everyone today. So, reconciliation is an optional part of the congressional budget process that can be used, particularly for the purposes of this conversation today, to make changes to federal revenue, to certain types of federal spending, and then also to the debt limit. The process, if Congress wants to engage in the process that begins with the adoption of a budget resolution. They're going to talk a little bit more about what that might look like in that budget resolution. Congress can designate particular congressional committees in the House and the Senate who are charged with writing language that would then be included in a reconciliation bill.

The most important and the biggest benefit of legislating the reconciliation is that reconciliation bills are not subject to the possibility of a filibuster in the Senate. So, if you have unified party control, as Republicans will, at the start of 2025, it's a big opportunity to move major party policy priorities without the threat of a filibuster in the Senate, without needing to get 60 votes. And in the size of the majority that Republicans have, you know, that would mean working with Democrats. I'll say that we've reached a point in kind of the evolution of reconciliation where when a party chooses to do reconciliation, the minority party basically takes that as a sign that they are not going to participate in the process, that they do not need to help the majority party try and do what they really want to do on a party line basis. And so, I think that's one thing to keep in mind. A downside or maybe not a downside, but a constraint on the reconciliation process is that the process is subject to a series of complicated procedures.

Some of them come from the Budget Act generally, but most of them come in the form of something that we called the Byrd Rule in the Senate, named for former Senator Robert Byrd, which basically constrain the kinds of policy changes and the size of a reconciliation bill, that sort of thing, over the life of the of the legislation. So, what we know right now is that Republicans in Congress intend to try and move quite quickly. I emphasize try and move quite quickly on the first piece of this process, the budget resolution. I think we should expect that, you know, when they come into session for the hundred and 19th Congress on January 3rd or very shortly thereafter, they will have a plan for what the budget resolution will look like.

We'll talk in a second, I think, about sort of what that what that plan might be. And then from there, they'll try to move quickly on the resolution and then they'll turn to the task of actually trying to figure out how to navigate their various priorities. Taxes, certainly. Also, potentially other types of new spending perhaps on immigration enforcement, also perhaps other spending cuts. There's been reporting that there's some interest in trying to do some cuts to things like Medicaid and SNAP in a reconciliation bill. And we can talk about whether that's politically feasible or not. But once that, they sort of have that first that first step in the process done to really start doing the work of trying to write a bill that you can get a majority of your party in both the House and the Senate. And again, here we're talking about narrow majorities, get a majority, two to agree to.

GORDON: Thank you. So, Michael, reconciliation and the budget resolution requires a number for everyone to get to. CBO is estimated that the cost of permanently extending the Trump tax cuts for ten years would be about $5 trillion. Is that going to be the starting number, or something else?

GRAETZ: Well, this is a really interesting question about what the number will be. You may remember in 2001, John Breaux, in a heroic moment, managed to get George W Bush's number down from 1.6 trillion to 1.3 trillion. And the Congress stuffed about 5 or $6 trillion into a $1.3 trillion budget bill by postponing when things started and stopping when they ended and putting in, as they did in the TCJA, things that are popular that expire on the assumption that both Democrats and Republicans will extend them. I think there are enough House Republicans in particular that getting the $5 trillion number is not possible. I'd be shocked if you if you could get a $5 trillion number. I think it's likely to be closer to two. You know, you can ask two questions, I think, on that. One is what are the offsets to the costs of the extension? They're not pretty. We can talk about those. The other is. When are they going to make this expire? That's the natural solution.

And so, you do a four-year extension, and the number gets down closer to $2 trillion, which is not you know, you think about the headlines and the headlines all paint by numbers lawmaking these days. So, you get to the headline, and the headline will be two instead of five. Or if you include the Trump tax cuts, 8 or 9 trillion. I just don't see that happening. But I also have to say, just to come back to Molly's point, is that the idea that they're going to do this, you know, by January 4th, good luck. I mean, maybe that will happen. I had a law professor who would say, if you believe that you'll never own your own home, it just doesn't seem to me that it's going to be as easy to get to the number as people would like to make it sound, even with a unified government. And then, you know, the spend is you're going to be spending is just a whole series of questions that Molly has pointed out.

GORDON: And Howard, you've written on these fissures in the Republican Party over both elements of TCJA, including openness to a higher rate among some members of Congress. And then the president, the former president and president elect indicated he might even want to go lower. Obviously, the state and local tax deduction, as the previous panel discussed, and the giveaway tour, as Doug described it. So how do you see the party holding together or not?

GLECKMAN: So, it's interesting. A lot of the headlines over the last week or so say Republicans win control of the House. I would say Republicans have a majority in the House. I don't know that they necessarily have control of the House. Mike Johnson has got a very difficult task. He's got, you know, his five families that he's got to negotiate among. All I think is very difficult, as the other panelists have said, the idea that they're going to do this in 100 days I think is foolish. My over under is December 31st, 2025, and that might be optimistic. So, I think it's going to be very difficult. The other thing that's important to note is everybody's focused so much on the party divisions and the ideological divisions.

A lot of what's going to be fought over is really more geographic. It's home state stuff. So, for example, the SALT deduction that crosses party lines, what you do with the green energy provisions of the IRA, same thing. There are there are legislators who are going to be representing their districts, not their party. So, this is a lot more complicated than just, you know, the reds against the blues. And that's also going to make things a lot more difficult.

GORDON: Vanessa, where are the Democrats in all this? The child tax credit has traditionally been an area for bipartisan common ground. Newt Gingrich, apparently when he saw a finding from a TPC study about how many families are left out of the full credit because their families earn too little said, I'm going to change that. I'm going to get money to those people. And we saw expansions both in the Recovery Act in 2009, and the TCJA was an expansion. There was talk earlier this year about a deal between Democrats and Republicans to address the expiring provisions of TCJA in exchange for an expanded child tax credit, although not as big as the American rescue plan. That bill stalled in the Senate, although it passed the House. So, pre-election, I think folks were talking about, you know, a very close race and a divided government where there would be some talk about reform in that area. Is that still a possibility? Is there enough consensus there?

WILLIAMSON: Yeah, I think Molly's point that the Democrats are mostly be on the sidelines is more or less where we're starting from, both because the unified control and because of the mechanism they're going to use to move this legislation forward. There is there has been occasional substantial interest on the Republican side about the child tax credit. But right now, you know, it's a volume of what are saying the. It’s a competition between tax breaks and the relative weight of the support for different ones, for the sort of special interests or broad interests that might benefit from them.
I think that's I think that's hard to say, but I don't. Yeah, I mean; to answer the basics of your question, I see the Democrats being largely shouting from the sidelines this time around.

GORDON: So, let's go through bills to table of big, small, temporary, permanent. Howard, starting with you, what do you think the outcome is going to be? You already gave us the timing over under.

GLECKMAN: So, I think the Byrd rule is going to be a very important factor in this. And I think it's going to essentially force a temporary bill for them to stuff all the stuff they want to put into this bill. They can’t make it permanent. And I think it's going to be difficult for them to make it do a ten-year bill. So, as Michael suggested, you know, a shorter time frame, I think is the most likely. As far as what's in it. I think the test case is actually going to be what happens in the Senate with Trump's effort to get his confirmations without advice and consent. If the Senate rolls over on that and gives Trump what he wants, it's hard to imagine the Senate is going to block him from tax free tips. You know, one of them is a constitutional prerogative. One of them is a silly little tax break. So, I think if Trump wants to stuff all this in the bill, he'll get it. But only temporarily.

GRAETZ: So just an observation. I think that Donald Trump is in the strongest position of any president in my memory to affect what's in this legislation. It's very hard for me to think of a president who had more potential influence over the outcome of this legislation. I do think I mean, I'm on the temporary side. Obviously, reconciliation, as Molly suggested, is a fiscal year issue. And so, you've got to get it through by October 1st in order to try to get another one if you want to do one the following year. So, I'm on the under of December 31st. I think October 1st is the right date. And as I said, I think it's likely to be temporary. The one point that I do think is worth mentioning is I think that the Congress seeing tariffs coming down the road, as we as we talked about in the earlier panel, they're going to want to score those tariffs as part of their offsets to the TCJA cuts.

And I think there's a real interesting question as to how they manage to do that, which is not obvious. But I think they can do it. But the other question is whether the Joint Committee on Taxation will give them credit for how many years of those tariffs that is, how long are you going to assume that those tariffs are going to stay in effect? And I'd be shocked if the joint committee said, well, they're going to be 300 billion a year, so that's 3 trillion over ten. The idea that you're going to have these tariffs for ten years seems to me unrealistic. And so, you know, then the question is, well, how much score they're going to get in order to get to their number.

WILLIAMSON: Yeah. So, I think I'm also in the sort of temporary camp. I want to go back to this question, a little bit of timing and then also of kind of how Republicans are likely to navigate some of these divisions within the conference. So, I think Howard is right that if President elect Trump wants to push for any number of the things that he has talked about on the campaign trail that he can certainly whether or not he can get Congress to do them, he can certainly get Congress to spend a bunch of time figuring out whether or not they can do them. And that, I think, adds more time to the amount of time it's going to take them to get to a package that they have the votes for. Obviously, we've already talked a little bit about what might happen with the SALT deduction. I'll just say that we're looking at somewhere between probably 19 and 21 House Republicans from New York, New Jersey and California.

So high tax states and these Republicans have not always been the ones who are really willing to flex their legislative muscle against their party leadership. So, we'll have to see if this is a place where they choose to do that. There's another group of House Republicans that has some overlap with the, such but is not entirely overlapping, who has indicated that they would like to see going back to something talked about in the first panel and they would like to see a number of the areas clean energy credits preserved. So that's another kind of another kind of faction. And then just generally this idea of, you know, are they going to have to spend time trying to figure out how to fit some of these other Trump ideas into the box, and do they stay in the box? Do they ultimately get to pick it out of the box?

And then I'll just add that at the very beginning of the Congress, it's looking like the House Republicans majority will be even slimmer because President elect Trump has announced plans to nominate several sitting House members, and those seats will be now will be needed to be filled by special elections. And then add on top of that the fact that as of right now, it looks like the most likely resolution to government funding at the end of this year is going to be a continuing resolution that would go into March. If that is true, that's another thing that they will need to do in the early part of next year. That will take sort of time and legislative energy and is a thing on which Republicans are also divided. So, I am sort of the mind that they will get there eventually, probably for the reasons that Michael said by October 1st, but that there's there are a lot of obstacles within the conference to getting there.

WILLIAMSON: Yeah, I'll just chime in a little bit. One thing that I think might matter for the timing is whether they decide to move forward with trying to include some spending cuts. Right. I mean, that's at least being discussed. I think it's strategically it's a choice that doesn't make a ton of sense to me. And for precisely this reason, the public, by and large, does not notice what's going on tax policy in the way that they notice what's going on spending policy. And in particular, it has been a strategy of for conservative who want to cut taxes to do those without accompanying spending cuts precisely because it improves the likelihood of popularity.

But the popularity of tax cuts has actually really declined. So, if you look back at the Tax Cuts and Jobs Act, it had a support, a level of support of 32%. Right. So, a third of Americans thought the Tax Cuts and Jobs Act as it was moving through Congress was a good idea. It was hugely partisan. Three quarters of Republicans supported it and 10% of Democrats. I think that basic partizan dynamic is going to be approximately the same this time. And it was never a priority for the public, right? If you look at the height of the Tax Cuts and Jobs Act, 1 or 2% of Americans thought taxes were the most important issue in the country. Now, if you look at the Obama administration, when they were moving for the Affordable Care Act, 25% of the public said that health care was the most important issue. Right. So, taxes are just a low salience issue, lower priority issue for the public.

And also, tax cuts get forgotten right away. Right. Bush tax cuts forgotten by the American public, doesn't remember having received them within a year, like 90% of the public doesn't remember that Obama tax cuts again, 90% of the public don't remember receiving the tax cuts within a year. So super low salience tax issues, which gives legislators a lot of latitude, right? Especially when you're talking about trying to get something moved forward with a tight with a tight majority.
You put spending cuts in there and American Americans notice, especially for things like programs that were discussed, Medicaid SNAP not only because these programs reach a large number of people who would be experienced immediate costs, but those. Programs have support outside of the poor for things like Medicaid. You're thinking about doctors and hospitals, you know, quite powerful interests. So, to me that when I'm thinking about looking at the timing, the decision to add things that are likely to provoke response that I focused on the spending cuts, but you could also talk about the tariffs in kind of a similar way. Are the decision to include those which things are very much at odds with the idea of getting something done quickly?

GLECKMAN: I think one of the thought about the spending cuts when I read the story in the Post yesterday about Medicaid, I actually looked at random. I picked West Virginia. It turns out there are 560,000 people in West Virginia on Medicaid. It's 22% of the West Virginia population. Hard for me to imagine that Jim Justice, newly elected senator from West Virginia, will make one of his first votes to cut that program. So, I think I think what Vanessa said is exactly right. Not only these programs are less salience, it's also the other things important to keep in mind is it's always harder to cut a benefit that people are already getting than it is to give people a new tax cut, for example. So don't miss it. And Jim, Justice knows that.

REYNOLDS: I mean, that's the story of Republicans' failed attempt to repeal the ACA via reconciliation in 2017. We're one of the stories is that people it proved very, very politically unpopular, in part because people tend to be more sensitive to things that they might lose then to things that they stand to gain.

GORDON: Can you expand on that? You already touched on the IRA credits, and it seems like in fact, those are very popular as repeals, maybe even multiple times as one of my colleagues has joked at TPCA. But I think you alluded to the letter from the 18 members before the election saying, hey, those investments are benefiting my district. So, do you think that that's going to continue?

REYNOLDS: So, I don't know. But I do think like this is the question to ask, which is particularly when you have a majority and a narrow majority that is trying to do something on a party line basis, asking where are the different blocks, what do what do people care about? What are they willing to go to the mat for? So, I what I don't have a great sense of is kind of how strong is that support? Is that the thing that a group of House Republicans would really try and stand up for? Are there other things from the IRA in particular that they could make a sort of big show of repealing? You know, we saw this last year when Republicans were trying to move some emergency spending through the House, some foreign aid spending, and they decided they absolutely must include an offset in the form of rescinding money that was to go to the IRS for IRS enforcement.

And that was, to me, as much a political story as it was a fiscal one. You know, it's important to us to be able to say that we are rolling back these big investments in the IRS. And so I don't know, as we start to sort of put this puzzle together and determine kind of what fits in the box, what's going to be out of the box, where are the things that are going to be really politically important to particular blocs of members versus what are the things that are going to be really symbolically important to be able to say we are undoing this thing that Joe Biden did?

GRAETZ: I think the I think there's a lot of difference in the energy provisions of the IRA. And if you're talking about the ones which are really creating jobs in Republican districts, Georgia being notable there, it's going to be hard to repeal the production credits and so forth. On the other hand, if you're talking about electric vehicle benefits, it's pretty easy, I think, to repeal electric vehicle benefits. The problem is that you're going to come to a number on reconciliation and you're not going to know what these offsets are until you get down to writing the legislation. And it's going to be a different group of people that are going to start writing the legislation from the ones that wrote the reconciliation number. I mean, I'll have input about it, but there's going to be a difference there.

And then you get into the question overall, how am I going to fit all this in? And of course, the I mean, if there's one thing they're going to repeal, you know, the simple wager is that some of the IRS funding is going to get cut. And, you know, the commissioner of IRS should be entering into contracts while we're sitting here for IT and other improvements so that a lot of it is already baked in. Their problem is that doesn't score. Us and the CBO last time scored it as a revenue loser.
And so that just adds to the problem. Even though, you know, if you ask, is there one thing, I mean, this is you know, is one of the things I talk about a lot in the book, if there's one thing that the Republicans really agree on, it's the anti-IRS vote which you never lose vote on doing something that hurts the IRS. I mean, that's a given. You know, if you want to hit a punching bag, the IRS is your number one choice.

GORDON: I'm really glad that we've shifted from Congress to voters. And Vanessa, going over your work, I learned a new word, which is socio-tropic, which means that voters basically vote based on how the economy is doing, not necessarily their own well-being. And as you've pointed out and as TPC has shown for middle income voters, the TCJA tax cuts translate to about 20 bucks a week. So how do you think that voters are going to react to the failure if Congress is not able to extend the expiring provisions? And then I also want to talk about voter reactions to tariffs, because it seems like voters know like the inflation.

WILLIAMSON: Yeah, I think that last part is definitely true. So, I think that if I think that another tax cut that I expect to pass next year will be largely will largely go unnoticed by the voters, both because they will not have paid a lot of attention during the process. And their attitudes about the legislation will be highly defined by their partisanship. And because tax cuts are immediately forgotten and have almost no long-term political bounce to them at all. But I think were they to fail to pass tax cuts? And also, I think the economic implications are pretty small for most families, right. So, you wouldn't be looking at people sort of seeing a broader economic improvement that then would translate into a change in voting patterns. It's absolutely true that people are looking socio-tropically.

They're thinking about the economy as a whole. When people are thinking about the economy for themselves personally, they tend to think about their own boss and their own situation and the choices they themselves have made while they look at the economy as a whole, they think more structurally and that's the part that they associate with politics reasonably enough, I suppose. So, if

yeah, so if we're thinking about on the other hand, if, if an if a new tax cut does not happen next year, the implications among voters I think would probably not notice very much.
But the implications for the Republican Party would be, I think, quite large because it would be a major failure on what is undoubtedly a legislative priority. And also, I think would have. It's a. Part of our politics that the donor class are extremely alert to. Right. When we look at public attitudes about taxation, the wealthiest people have, unsurprisingly, you will not be shocked to learn more conservative attitudes. They're more in favor of lower taxes. They're more in favor of lowering taxes on the wealthy compared to the public at large. If you ask most Americans, 60% of Americans say that the worst thing about the tax code is that rich people aren't paying their share.

And the same fraction will tell you that they're concerned corporations aren't paying their share. These are the top the top concerns they choose. And even among Republicans, more people think taxes on the rich should go up and go down. But that's not, you know, the sort of baseline, amorphous public opinion is not what drives public policy broadly, and it certainly does not do so on tax policy. But I think that there would be enormous political ramifications in terms of failure on this legislation, in terms of the response of the highly engaged portion of the Republican base, and particularly the sort of donor class part of the base.

GORDON: Sticking with tariffs for a minute. Molly, I'm confused. I think if the president does tariffs, don't they just go into the baseline? How would they be counted in the reconciliation bill?

REYNOLDS: It's a good question. And I think broadly, this question of sort of how the tariffs fit into this puzzle is an important one. Like you can certainly. And so, the president has certain powers to impose tariffs unilaterally. There are limits to those powers. And if they choose to go sort of farther than that, reconciliation is an option. Excuse me. You can do tariffs via a reconciliation bill subject to the all the same usual Byrd rule constraints. So, you know, if you try to impose a tariff that was too narrowly targeted, that might be that might create a bird roll problem for you.

But I think at the end of the day, even if they if they do try to put them in a reconciliation bill and focus on the first panel said this, it's not like that's going to generate a huge pay for, like that's not going to offset in any real meaningful way the cost of the size of the tax cuts that they that they otherwise want to do. And I'll also just add that if you decide to try and sort of put add tariffs into this equation, that creates another set of political constituencies that you have to navigate. So, Republicans from districts with a lot of farming interests, how are those people going to feel about tariffs as part of our reconciliation bill? I don't know. And so, again, it just kind of the more things you try to bring in, the more potential political divisions you have to navigate.

GLECKMAN: Yeah, I think there's a real question about whether a tariff bill of the magnitude the Trump is talking about could get through the House.

GORDON: So...

GRAETZ: But the key is whether the House can manage to count the revenues by giving Trump the authority to do whatever he wants. And that I mean, that seems to me a much more likely avenue for getting some revenue and offset some of these extensions in the in the bill. And I think there are ways that they can do that. You know, without saying we're standing up for tariffs in some in some sense.

REYNOLDS: To come back to the voters question for a second, because I think it bears on this question about tariffs. It bears on this question about what voters will pay attention to. When I say has done more work on how people think about taxes than perhaps anyone. So I'm I don't want to disagree with her, but I do want to note that, again, on some of these issues and here I'm thinking especially about salt, that the members who care most about the sort of particular elements of what might be in a package are also the Republican members who have to run for reelection in two years in some of the most vulnerable districts for Republicans in the country.

In what sort of decades of political science would tell us is a year that will be hard for Republicans to defend seats. So, we know, again, looking back over the entire postwar period, that usually a president's party loses seats in a midterm election. And given the very narrow nature of the Republican House majority, this is you know, it's going to be difficult for them going into the election. So, I think, you know, it may not be the case that voters writ large are particularly sensitive to what does or does not happen. But, you know, those Republican voters on Long Island, if there's nothing that addresses their salt concerns, you're going to see whether or not that matters for how they vote. You're certainly going to hear a lot about it in a midterm election campaign.

WILLIAMSON: Yeah, I think that's exactly right. I think that narrowly targeted benefits that reach a politically engaged population, which salt is because we're talking about high income people with who pay a large amount in state local taxes. So, this is high income, high wealth people as a rule in high tax states. Yeah, that's a population that's paying a lot of attention and has the political ear of their representatives for sure.

GORDON: While we're here on politically salient issues. Let's talk about Section 199, Cap A, So I think Elena called it the perversion of the income tax system in the last panel. It's the deduction, the 20% deduction for qualified business income for businesses that are organized as partnerships, as LLC, where individual owners pay income tax on their share of the profits. I think that the research community has pretty much debunked the idea that partnerships are small businesses and the want community is pretty unified in the idea that Section 199 at a minimum, should be restructured, if not eliminated. And yet the prospects of that happening are essentially nil. It seems to me, as an economist. And I just wonder what you all think about that.

GLECKMAN: So, I agree. I mean, the experts also 199 cap is probably the worst provision of the TCJA. But the small business lobby, the subsidy lobby, incredibly powerful. And I don't see Republicans in Congress bucking that pressure. So, I think it just continues.

GORDON: Well, I agree. I mean, the big problem which was mentioned in the first panel is that you no longer need to go to the capital markets, the public capital markets, in order to get huge amounts of capital because you've got private equity and you've got university endowments, dimension of target and other ways to get the money. And so, you got very large flow through entities in the U.S., and they don't they can elect to be taxed as a corporation or a part of their business as taxed as partnerships and other parts taxed as corporations. And this the key here is that they should get large business entities on one set of taxes, whatever it is.
And the corporate base seems the right one, but it's politically impossible. I mean, I argued this with staff of the Finance Committee for years and years and years, and they just say, well, that's just a nonstarter. And as Howard has said, the NFIB is so powerful, and many members of Congress I learned this in a in a caucus were auto dealers before they went to Congress. And so, the auto dealers turn out to be a very powerful group. And this 199A scenario and it is it's you know, I think

there is unanimity in the policy community. There's certainly unanimity across the think tanks in Washington that it should be repealed. And good luck to that.

GORDON: So, as Bill indicated in the beginning of today's event, the U.S. has a deficit problem. It's currently at 7% of GDP. By the end of the decade, federal debt is projected to reach 116% of GDP, the highest it's ever been in U.S. history. So, Michael, you've talked about consumption taxes that are not tariffs as one possible revenue source. Optimistically are the discussion about tariffs a foot in the door to talk about maybe better consumption taxes? And maybe each of you could talk about your pet solution to the U.S. fiscal problem.

GRAETZ: Yeah, well, let me just say one word about the deficit. And, you know, I've been talking a lot not only about the deficit, but the more important to me role of interest and crowding out all of the other expenditures of the federal budget. It's the fastest growing expenditure we now have. And it's. And $0.30 of every dollar is going abroad. And so, we're shifting a lot of money abroad and it's very interest rate sensitive. I will say I gave a talk, this is an issue at the end of my book, and I gave a talk to a group of very young, a small group of very young financiers, bond traders and currency traders and so forth. And the idea that the bond vigilantes or some were waiting to come in and save the day is not going to happen.

And these folks kept telling me, don't worry about deficits and don't worry about interest. It's just as long as GDP is growing nominally at a higher rate than we're paying interest on the federal debt, it's just not a problem. And the fellow who put this together sent me a note and an email saying, well, I hope this put your mind at ease. And I send him back, and I'm saying to the contrary, it did not. So, I don't think I mean, I really don't think there is a short term or medium-term solution to this deficit problem.

I think people are just not going to worry about it and it's just going to go on. But on the consumption tax question, which has been one of my hobby horses for years. So, I mean, I think it's pretty clear that a tariff is a consumption tax. For almost a century now, we decided it was a bad consumption tax, and we do a little here and there as negotiations require. But nobody in total, Donald Trump has said this is really the answer to our problems and it's going to bring manufacturing back to the U.S. in a in a robust way, which is not going to happen. And so, the question is, can you take the tariff movement and jigger it in a way that you get essentially to a consumption tax, that you tax domestic consumption, whether it's produced abroad or whether it's produced here, and you give an export subsidy as well as an import barrier of some sort.

And, you know, there are lots of ways to do that. The destination base tax of the House Republicans leadership and 2016 and 2017 is certainly a possibility. And there is some support for that. And in the Congress, you know, a tax on goods and services, you know, which some people call a value added tax, but I always call a goods and services tax, which is the way that the Brits and the Australians and so forth and the Canadians have called it makes a lot of sense to include services, whereas tariffs only will affect goods. And so, I do think there is the possibility of an opening here for something that doesn't quite look like a consumption tax and looks more like a tariff.

You know, Bob Lighthizer, who's going to be an important player on this tariff issue toward the end of his book, which I've read. So, I can spare you all from reading it, which I think is a good deed. But, but having said that, toward the end of his book, he really does treat a value added tax as creating the same sorts of import barriers as he does with tariffs. And, you know, he and others who are sensible and have thought a lot about consumption taxes will be in the in the president's, and some in some position or another. So, I think there's a I think I do think there's a possibility here and I would give it a higher probability than most people would. I'm I have to retain some level of optimism. And that's where my optimism sits at the moment.

GORDON: Okay. Sorry. Go quickly.

GLECKMAN: Sure. So, I think there's a short term and a long-term answer. I think the short-term answer is it's not going to happen. But the long-term answer is it's going to have to. We already have a tax and income tax system that is insufficient to generate the revenues to pay for the programs that we want. President elect Trump is going to blow a $9 trillion hole in that tax base. There's got to be some other source of income of federal revenue and a consumption tax of some sort I think is probably going to be hit. Whether it's a well thought out consumption tax like Michael's come up with or whether it's a dumb consumption tax, like a like a tariff or a fair tax remains to be seen. But I think sooner or later, we're going to have to do it. Unfortunately, where I disagree with Michael, it's going to be later rather than sooner.

GORDON: I want to ask you to hold your pet ideas and find a way to work it into whatever the answer to the audience questions are. Yeah. Let's go over here to Pete.

AUDIENCE MEMBER: Pete Davis. Assuming we get a reconciliation bill enacted, will it set new records for retroactive restoration of bonus depreciation? RNE 163-day interest limitation. And won't that have to be very carefully drafted by Senate alleged counsel to get around the three-year statute of limitations and the Byrd rule?

GRAETZ: I'd be surprised if it's that retroactive. I just think the numbers. Are. Just fitting. Everything that they need to do going forward into this legislation is going to be a big enough lift that, you know, it may be a little retroactive. Maybe it's the last year because of all the discussion of the R&D amortization and so forth. But I'd be surprised if it's as retroactive as the question suggests.

GORDON: Jim.

AUDIENCE MEMBER: Do any of you think that. Maybe part of the deficit issue could be addressed by separately passing an increase in the child tax credit that might pass with bipartisan support and then have less to pay for and the rest of the bill?

GLECKMAN: I doubt it. Jim? I don't think I don't think so. The idea of them doing a separate tax bill after exhausting themselves with this giant thing I think is pretty unlikely. The other thing I think is, is that many of the Republicans who are most enthusiastic supporters of the child tax credit are gone. So, Mitt Romney has left Congress. So, I'm not sure how enthusiastic the remaining Republicans are going to be. Remember that J.D. Vance talked about an expanded child tax credit. But Donald Trump never did. So, I'm not sure that this is really on his hit parade.

GORDON: So, taking Doug's admonition that you have to make good policy, good politics, I wonder if we could, in the interest of time, start wrapping up. So, I think a lot, Bill and I talk a lot about this story about the then campus box outside Camp Baucus plan. They were doing a roadshow around the country, and they talked to this one voter who said, I want you to close all the loopholes except for the ones that benefit me. And so, I just wonder, what would each of you tell that voter in the same way that the other panelists got to pretend to advise the president elect? So, Vanessa, what would you tell that person?

WILLIAMSON: Well, I think that. One of the problems of our tax code is that it informs all voters that there are basically an unlimited number of what everyone calls loopholes available to everyone who is not them personally. Right. And that, you know, filling out your income tax form, that is the impression you receive when you're asked about your farm income and so forth. So, I think what I would suggest is probably that it's so hard to imagine it making a difference. But I would I guess what I would love for people to think about is what the priority should be, right? Because we often are talking about, you know, people don't like these big tax cuts at the top. That's true. It's been true for decades. It's incredibly stable opinion. But what I what I wish we could somehow change was to get voters and through magic at this point, therefore their representatives to prioritize the things that are actually at the top of the list for people. Right. And the things that are at the top of list for people are nothing that we've been talking about today. Right.

GORDON: Sorry. 30s or less everyone else.

REYNOLDS: I mean, I agree with I agree with Vanessa. And I would think I would just tell the person that, you know, the loopholes that benefit you are the exact same loopholes that somebody else doesn't like because they don't benefit them and that you can't get. It's very hard to get to. Yes. On changing anything and when that's the world that we live in.

GRAETZ: I just want to make an observation about Donald Trump's proposals here. And just because it hasn't been mentioned, I think the one thing that was actually very smart of Trump, I know he was trying to please one constituency after another with the list that was talked about in the earlier panel, but they didn't mention the auto loan interest, which I think people really care about being able to deduct their auto loans. And, you know, if it's an itemized deduction, then it doesn't amount to anything. But if it's for everybody, in addition to a standard deduction, I think it has a lot of political sway and it's costly. But one of the things that he was talking about seems to me that's one the voters might really care about in some sense, because, you know, everybody that voted for almost anybody has an auto loan of some sort. And it just struck me as a real stroke and his and his list of giveaways.

GLECKMAN: Just really fast. I think one of the one of the messages there's not gone effectively, not been effectively delivered to the public is how much of the income tax you pay goes to pay interest on the debt.

GORDON: Well, I really appreciated your question earlier about the challenge to the analytical community to try to make the case and be creative. And so, I think we are all here to continue to rise to the challenge. Thank you very much, everyone, for being here.