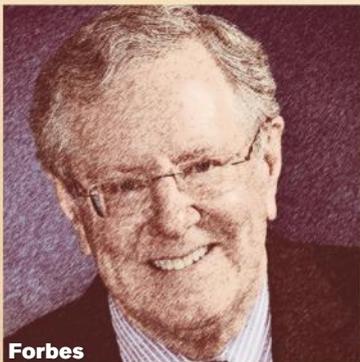


Modern Trader's 2017 Economic Roundtable

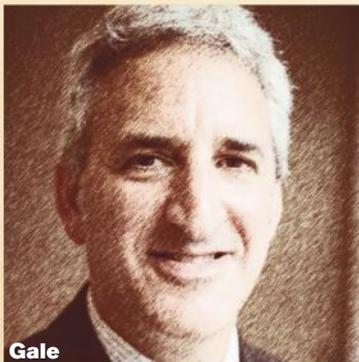
Heavy Lifting on Capitol Hill:

Republicans Turn to Tax Reform

By Garrett Baldwin • Illustration by David Compton Wolff



Forbes



Gale



Goolsbee



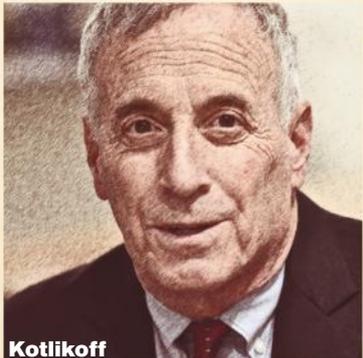
Johnson

→ **The testimony of former** FBI Director James Comey came and went with more hype than harm to Donald Trump's administration. The more important issue is whether Congress spent too much political capital to get comprehensive tax reform done by the end of 2017. The likelihood of significant policy changes is fleeting for the year. Some economists are even losing hope that tax reform will be completed by the midterm elections of 2018.

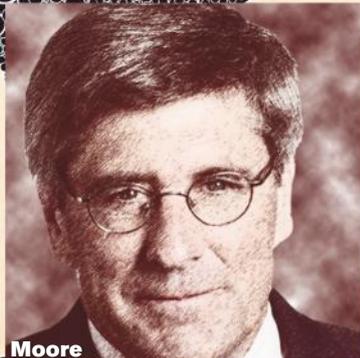
Many investors argue that the post-election rally in the S&P 500 was fueled by increased optimism that the Trump administration would enact pro-growth policies such as 1986 style tax reform, the repeal and replacement of the Affordable Healthcare Act or a \$1 trillion infrastructure program. But six months after the election, Congressional Republicans are trading water, while Trump remains inflamed in a series of scandals – nearly all self-inflicted.

If Republicans want to enact tax reform, they must go it alone this year. The traditional class warfare rhetoric has already spilled from the mainstream left. Given that wealthy Americans and shareholders pay the bulk of government revenue, there has never been a tax cut that hasn't favored this class of taxpayers. Ironically, it's hard to find any economist from any side of the left to right spectrum who disagrees that corporate tax reform should be a priority in Washington.

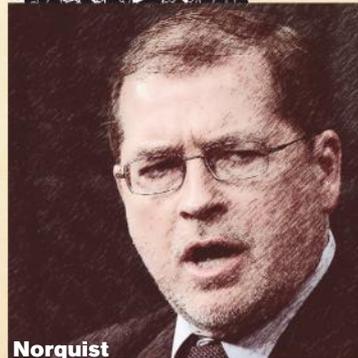
Modern Trader elected to dive deep into the policy end of tax reform for this month's feature story. This month, we caught up with a panel of tax-reform advocates, leading economists and policy experts from both sides of the aisle. **The consensus: Washington must complete comprehensive tax reform – but Republicans must take a gamble to enact such policy.** →



Kotlikoff



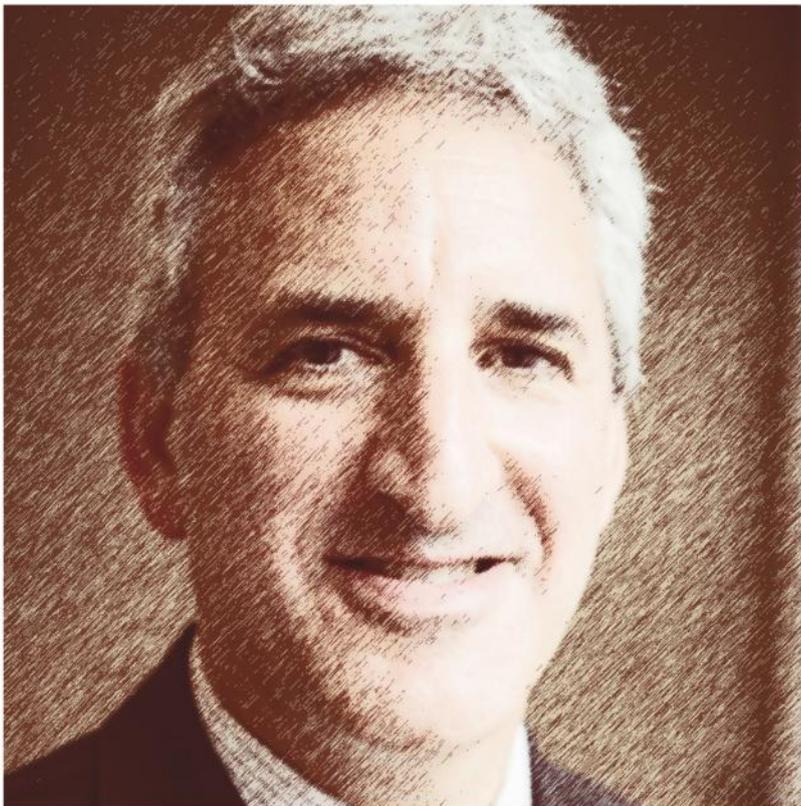
Moore



Norquist

The divide centers on not only what policy should look like, but who would be the winners and losers from the current proposals floating through the nation's capital.

Our first annual Economics Forum features conversations with Steve Forbes, Laurence Kotlikoff, Austan Goolsbee, Grover Norquist, Dan Johnson, Stephen Moore and William Gale. In the following pages, each participant makes their case for the role of tax reform in the Trump era, provides their take on who wins and who loses, discusses the major trends that are missing from today's debate and more. Will policy makers listen? Will Republicans go it alone?



“There is no reason to expect a bipartisan deal right now. Republicans control both houses of Congress and the White House. Paradoxically that makes tax reform harder.”

– **William Gale:**

William Gale is the Arjay and Frances Miller Chair in Federal Economic Policy in the Economic Studies Program at the Brookings Institution.

Economic Tilt

Modern Trader: Where would you define yourself in the school of economic thought in the spectrum of whether it's the Keynesian school, Chicago School, Austrian School, the range of left versus right, or up versus down?

Stephen Moore: The Chicago School.

Steve Forbes: My view is “free market.” I find fault with all of the schools. Obviously, the Keynesian school is very bad. The Austrian is pretty good, but not an “A-plus.”

Austan Goolsbee: Up.

Dan Johnson: Results.

Grover Norquist: Somewhere among [Friedrich] Hayek, Milton Friedman and Adam Smith is the right place to be. Everyone has an economic school of thought they follow. Some won't admit it because all Statist economic theories have ended badly. Very badly. Much blood on the floor. Better to call “socialism” “Economic Democracy.” The Nazis and Soviets kind of made socialism smell of death.

Laurence Kotlikoff: Anybody who aligns themselves with a school should give up his economics card. It means you don't have an open line to what questions you're asking and what answers you're getting. You're in some club and you're supposed to adhere to that club. Inevitably they end up becoming a spokesman for one of the two parties.

MT: William Gale recently said an August timetable for tax reform was ridiculous. What is a reasonable timeframe for tax reform?

William Gale: It depends on whether it's bipartisan or one party and how much they do.

If you're talking about something similar to the tax

reform of 1986, with major revisions, restructuring of the tax code, and a bipartisan agreement, I don't see how that happens this year or next year. There is no reason to expect a bipartisan deal right now. Republicans control both houses of Congress and the White House. Paradoxically, that makes tax reform harder. You might cut taxes for some people, but you have to limit some deductions and thus raise taxes for other people. No party wants to do that by itself. That's the type of thing you do in a bipartisan deal. I don't think it is a coincidence that the 1986 deal happened when there was divided control. Each party had some power. They could take responsibility and compromise. Today, I don't see that Republicans are in any mood to work with the Democrats or the Democrats are in any mood to work with the Republicans.

Johnson: I don't see tax reform getting done this year. I barely see it getting done next year. Certainly part of it is the congressional races, the congressman will be out fundraising in preparation for the midterms so there'll be a lot of big promises made. But they won't be willing to rock the boat on tax reform. The second thing is the administration has been unable to get many of its policy proposals through Congress so far. We see what happened with healthcare reform. And the big thing that all the tax reformers a couple years ago were looking at was that we need a president in charge; we need a president who can lead. That's what it will take for tax reform. For the Reagan reform of 1986, you had Reagan leading the charge. We do not have bipartisan consensus on tax reform. And the idea that the Republicans are going to use the reconciliation process to get tax reform through is based on the idea that they have a unified party right now; but they don't.

Goolsbee: It would need to happen by fall to work. In the end, I don't think it's going to happen. They are frittering away their time of action. By the time we get to 2018, they won't be able to pass it. The thing is, the last time we did real tax reform, we spent years laying the groundwork and everyone understood where we were going. This time there is none of that.

Moore: Tax reform will happen before the end of the year. [We'll see the] biggest tax cut since Reagan. But Democrats are so anti-Trump that they are against anything he favors. It will be only Republican votes that get it passed.

Where are all the women economists?

"I dare you to do something. Fetch a piece of paper and write something on it: the names of five famous female economists. It's hard, isn't it? You may have thought of Gillian Tett, Stephanie Flanders or Joan Robinson. But naming five is a bit of a stretch. Most people know the more prominent names in economics – the Keyneses and the Hayeks and the Marshalls – but there are no women among them. Economics does not have a Marie Curie.

"Economics has a problem with women. In 2014, *The Economist* published a list of influential figures in the field that didn't list a single woman. Of the 76 Nobel laureates in economics, only one has been female: Elinor Ostrom, who won the prize in 2009."

-- Francis Wheetman, *New Statesman*,
February 2017

MT: Stephen Moore, what is happening in Washington that is making you think this is only going to be Republican votes?

Moore: I was here in 1986, one of the last times we had a tax reform. That was a genuine bipartisan effort. It was led by Bill Bradley (D-NJ) and Dick Gephardt (D-Mo.). People like Howard Metzenbaum (D-Ohio) and Ted Kennedy (D-Mass) were voting for tax reform. Unfortunately, today there are maybe one or two out hundreds of Congressional Democrats who would vote for a lower tax rate structure in exchange for broadening the tax base.

Most Democrats today want to raise tax rates. They don't want to cut them. They want to make the tax system more onerous. Bernie Sanders ran for President endorsing a 70% marginal tax rate, and he almost won the Democratic nomination. I would love a bipartisan effort, but it takes two to tango.

MT: Steve Forbes, do you think any Democrats will join in to support tax reform?

Forbes: Right now, no, but circumstances do change. If they come to conclude that that Donald Trump will be

"Anybody who aligns themselves with a school should give up his economics card."

– Laurence Kotlikoff



“The corporate income tax is arguably a tax on workers.”

– Laurence Kotlikoff

Laurence Kotlikoff is a Professor of Economics at Boston University, a Fellow of the Econometric Society and a Research Associate of the National Bureau of Economic Research.

around for a while, that might make them more amenable.

Democrats fear the radicals in their base. That base includes a lot of big check writers, and they all fear well-funded primary opponents. You're going to find only a handful willing to do anything, and most of the time they'll just be marching in lockstep against the Republicans.

MT: Where should tax reform rank as a policy priority for Washington right now? Is there an issue more deserving of Congress' time and attention?

Goolsbee: Tax reform or tax cutting? Tax cutting is probably #3 for the administration and #2 for the Republicans in Congress. Tax reform (actually broadening the base and not just lowering the rates) is not a priority at all. This administration seems to be pushing healthcare and immigration [reform] before it.

Kotlikoff: We need to have a fundamental reform of our tax system, no question. I wouldn't exactly do [Trump's plan], but I'm a supporter of this House Better Way Plan. I think it's a good thing for the economy and would lead to about an 8% increase in wages, based on our simulation studies.

MT: So, are the reforms being discussed a step in the right direction?

Goolsbee: No. The right direction would probably be broadening the base and lowering the rates like in 1986, just not on corporations. The argument that massive cuts in rates for the highest income people have magical powers to grow the economy has been disproven again and again. Why are we back on this again?

Johnson: I would say that the proposals represent a step in the right direction. They show that Congress and the White House are thinking seriously about tax reform. That said, they are nothing more than a smattering of ideas on a piece of paper lying by a blueprint. [Their plans] also misquote some of the facts. The charts and figures are wrong in the blueprint. There are some serious statistical errors there. The Trump plan is a one-page piece of talking points. So, we don't consider either of those tax reform plans. By the looks of the market when the Trump plan came out, the market doesn't either. A step in the right direction for us would be release an actual plan. Release actual tax reform legislation or at least a draft of what that legislation will specifically cover. Then we can actually talk specifics on tax reform.

Moore: We have a business tax system that makes America hopelessly uncompetitive in a global world. It sucks jobs, factories and capital out of the country. The rest of the world, as Donald Trump might say, is laughing at us behind our back. So we need a tax code that puts America first. The way to do that is to get the rates down from the highest in the world to the lowest, or at least near the lowest. The business tax system needs to be fixed because that's where we're at such a competitive disadvantage. It's like there are dollars on the sidewalk waiting to be picked up if we just lean over and do it. The business tax is just an abomination.

Corporate Taxes

MT: How should we view the corporate income tax today?

Kotlikoff: The corporate income tax is arguably a tax on workers because it's incentivizing companies to leave the country, operating through these inversions but also just [rewarding them to] move their capital abroad. Workers have less to work with. Permitting companies to engage in transfer pricing games lowers revenues. So you have a disincorporate tax with a very high [affective] marginal tax. I'm not the world's expert on who's right in this debate, but what we're talking about is getting rid of a corporate tax that is falling on workers. It's called the corporate tax, but it's corporate tax in name only. It's really a tax on labor because the corporation can escape the tax. Rich people who own the corporations can take their capital abroad and escape the tax.

Norquist: Corporate income taxes are a destructive way to raise taxes. It is a deliberate effort to hide the incidents of taxation by putting it on companies, letting people think that somehow we'll tax companies, not people. Only people pay taxes. Companies collect taxes from people and give them to the government.

Johnson: I dislike the term corporate tax. It's not a corporate tax. I understand why they did it, because legally, under the IRS these are entities called corporations, but it's actually a tax on the consumer who buys the product. It's not a tax on the corporation. The consumer is the one who eventually pays for it. On real terms, it's basically just another consumption tax. I would be in favor of completely canning [it].

MT: There's an argument that if you reduce the corporate tax rate, then other countries would follow suit. Oxfam has called this "a race to the bottom." Do you agree?

Norquist: They say race to the bottom because the bottom is usually considered a bad thing. It would be a race to lower taxes and lower the tax burden for countries all across the globe. The leadership of the Australian Treasury Department [recently] said, "We're at 30%; as soon as you guys go to 15%, we are right after you. We cannot compete in a world where you're at 15% and we're at 30%."

If the United States goes to 15%, the rest of the world will go to 15% and beyond. It would tremendously strengthen the United States. The United States is bigger, stronger, more secure than any other country. Other countries today are viewed as secure because we chase foreign capital out of the United States with destructive tax rates and a destructive worldwide tax system. We should always be looking to be one of the lowest corporate income tax countries in the world.

Johnson: It's only a race to the bottom if your priority is government revenue. And I don't think that government revenue drives economic growth, and more importantly, economic prosperity. In fact it's a race to the top, where countries are kind of forced into the only thing that really lowers taxes around the world, which is tax competition. And they're kind of racing to bring jobs and bring corporations to their particular country. That is what creates economic growth, not the government having more revenue. I disagree that it's a race to the bottom.

MT: Was it an error for Congress to take aim at healthcare before [tax reform]?

Goolsbee: In principle, yes, but practically, no. The problem is that there are many Republican members of Congress who insist on removing the taxes from the Affordable Healthcare Act, and doing that costs more than \$1 trillion. If you do a tax cut without ring-fencing those into a health bill, then they will insist those go into the tax bill and then the deficit apocalypse of the bill gets even worse. That's why they didn't think they could do taxes first.

Johnson: Healthcare is in the internal revenue code because that's where they put it. If they wanted a simplification of the code they really did have to go healthcare first. So, what is an ideal tax plan in terms of corporate rates, individual rates and structure? What are you advocating for? Well, obviously our position as an organization is that taxes are a bad way to fund what

"Most Democrats today want to raise tax rates. They don't want to cut them."

– Stephen Moore



“Corporate income taxes are a destructive way to raise taxes. It is a deliberate effort to hide the incidents of taxation by putting it on companies, letting people think that somehow we’ll tax companies not people. Only people pay taxes. Companies collect taxes from people and give them to the government.”

– Grover Norquist

Grover Norquist is president of *Americans for Tax Reform*, a taxpayer advocacy group he founded in 1985.

they’re supposed to do. Taxes are a bad way to fund social policy period and that nonprofits, corporations, etc., do a much better job effecting essential public policy and essential social services. That said, we obviously support efforts to try to make the system a little bit better.

Forbes: Yes. They have to deal with [healthcare] because the current system is making the accessibility to medical care more difficult. The Democrats love

to prattle on about how “we insured millions of people,” and then leave out the fact that the amount of deductibles have gone up catastrophically. So, people either have less access, or they’re paying far more than they ever did before. So we have to deal with healthcare. I would have preferred to go with a tax cut. But this is where House Republicans especially, and a lot of U.S. Senators, get caught up on the [Congressional Budget Office (CBO) not] scoring it more favorably. If we do healthcare first, it will give us more money to play with in tax cuts. It’s preposterous. You can tell CBO to take a hike. The real question, the real metric in terms of judging a tax bill, is how much it helps the economy; [the] rest is irrelevant.

Gale: If the Republicans could unite around things, they could get them passed. There’s no question. But as we saw in the first round of the healthcare reform debate, differences exist within the Republican Party. Their margins are relatively thin. If Democrats stay united and the Republicans have factions, then nothing will get through.

Winners & Losers

MT: *In the current tax proposals, who do you view as the winners and losers?*

Forbes: The winners will be 98% of the American people having more vibrant economy. Men, especially, who have dropped out of the workforce may be thrown back in the coming years. The only losers will be the media, which elects to deal in slogans now rather than the hard work of analysis, the extremist Democrats and perhaps some lobbyists. We won’t get a comprehensive tax bill change this round, but just as Reagan had two big tax bills, there’s no reason why Trump can’t have two biggies, and once he establishes his political footings, perhaps we can get a true flat tax in the next few years.

Gale: It’s a little tricky because the tax reform plan isn’t well defined. The Treasury Secretary said essentially that you couldn’t analyze our tax reform plan in the budget because there isn’t a specific plan. But if you go by the things that Trump said in the campaign, and the estimates coming from them, then the bigger winners are extremely wealthy households who benefit from the lower rate on business income. The lower rate on corporate income, the elimination of the [alternative

minimum tax], the elimination of the estate tax, the drop in the top tax rate, and so on. And we're talking about enormous gains among the top 1%: after-tax income growing by 10% to 14% in that group. The big losers, if you count the tax plan, the budget proposals, the health-care proposals, are low-income households who would be actively worse off. It's hard to say for the middle class precisely without more knowledge of the details of the tax plan. For example, it depends on how aggressive they are going after the mortgage interest deduction, or state and local tax deductions. And then the future generations are a big loser because the run up in debt would be enormous.

Norquist: If we do not cut corporate income tax rates there will be no American pharmaceutical companies in six years. Burger King moved its ownership to Canada, for crying out loud. The entire economy would grow at Reagan rates of 4% a year rather than 2% a year if we moved to a 15% corporate rate.

Moore: Under the Trump plan that I put together with Larry Kudlow, we got the rates down to about 15% from 35% today, so that would be an enormous benefit. We also think that allowing businesses to immediately expense their purchases would be a huge boost to growth. And you'd start to see a lot of new machinery and equipment purchase, and planes and trains, and trucks and things like that. The capital purchases would be rationally accelerated in that some for a lot of growth. Then the repatriation would just suck capital from the rest of world back in the United States. So all those things are very positive for the United States. [It] can get us back to 3% + growth. And that's a big improvement over the 1.5% to 2% growth that we had under Obama.

Goalsbee: Absolutely the biggest winner would be high-income pass-through entities. The administration plan would create the biggest loophole in the history of the tax code and give a \$2 trillion Christmas present of 15% maximum rates to private company owners.

Moore: About 70% of the benefit goes to workers when you cut the corporate tax, so this is a tax cut for middle class workers; if you want higher wages you have to do something about [corporate taxes]. If you don't have healthy companies, you can't have high paying jobs. Workers benefit, shareholders benefit, America benefits. America becomes more competitive, and when America's growth expands, it's the old saying that a rising tide lifts all boats.

“I don't think that government revenue drives economic growth, and more importantly, economic prosperity.”

– Dan Johnson

The Details

MT: What are the appropriate tax structures and rates?

Gale: Let's start with rate reduction and we'll move to the consumption side. So, rate reduction would have the benefit of reducing all of the distortions that are in the corporate tax right now: the negative impact on investment, the favoring of debt over equity and the favoring of retained earnings over dividends.

Also, the double taxation of corporate equity income relative to non-corporate income, so it would help reduce all of those things, but at the same time if you reduced the corporate rate dramatically you introduce new distortions and new problem areas in the economy, particularly between wage income and corporate income.

The Republican [rhetoric] has extended to non-corporate income too, non-corporate business income. If you think of three top rates, if they're not all relatively close to each other then there's always going to be ways to game the system.

Moore: It's been 30 years since we cleaned out those stables. All we've been doing for 20 years is promoting tax reform. I remember back in the late 1990's when we started talking about the flat tax and the national sales tax, which would get rid of all the income tax. We know what's wrong with the tax system. It's too complicated, the rates are too high, the compliance costs are too high. It is inequitable that some people pay high taxes and other people in similar economic situations pay almost no tax. That's true on the business and individual side. There's nothing good about the tax system. It is filled with all sorts of ridiculous carve outs and special interest loopholes for everything [from] investing in windmills to NASCAR racetracks; it's indefensible. Businesses



“The winners will be 98% of the American people having more vibrant economy. Men, especially, who have dropped out of the workforce may be thrown back in the coming years. The only losers will be the media.”

– Steve Forbes

Steve Forbes is Chairman and Editor-in-Chief of Forbes Media, and candidate for the Republican nomination for president in 1996 and 2000.

are leaving because of the tax system.

Kotlikoff: I would get rid of the corporate tax, the personal income tax, the state and gift tax. I'd replace those with a progressive value added tax of about 20% across the board. That's pretty similar to what the business side of the house plan is. But I also have a progressive consumption tax that kicks in after about \$100,000 in consumption and it starts with a rate around 5%, and goes up to about 30%. But you'd be able to deduct wages so that people would not be disincentivized from working. I'd have a \$2,000 per person payment. I'd have eliminated the ceiling on the FICA tax. And then I'd have an inheritance tax of 20% above \$5 million of gifts and bequests received in your life.

MT: Is there any evidence that tax cuts can pay for themselves?

Goolsbee: Of course not. There are hundreds of economic research studies documenting that they don't [pay for themselves]. In a major survey of the world's leading economists from across the ideological spectrum, support for the idea that tax cuts pay for themselves was zero (initial reports suggested one economist supported the idea but it turned out he misread the question).

Gale: Not [the] broad-based tax cuts that we're talking about. If you have an excise tax on expensive cars, and [it was] 90% or something, and so nobody bought the cars and you cut it back to 70%, people might buy some more cars. But in terms of income tax, which are broadly on labor supply and savings, there is just no evidence to suggest we're anywhere close to the point of a tax cut could pay for itself. [The idea of tax cuts paying for themselves] is the ultimate in wishful thinking.

Norquist: First, you get more economic growth when you reduce the fiscal drag on the economy. Two, you want to reduce taxes, because the government spends too much money. You want the government to have less and spend less money. You want to reduce taxes because people who earn money should keep it. This idea that somehow the amount of the doctrine of the federal government that since we have this much money we will always have Poland. We will always have this much money. And whatever negotiation you want to do you must always give the king this much money. We don't care whether it comes out of your left pocket or your right pocket.

Reducing the tax rate is a good, independent of anything else. All taxation is a drag on the economy. Taxes make prices lie to people. And people who are lied to make bad decisions. For all those reasons, you want to minimize the tax burden. When we cut taxes in 2003, cut the capital gains tax and the dividend tax, the money raised by the government after taxes were cut, was higher than they expected to raise total if taxes had never been cut. So in that example, the tax cut, more than paid for itself. It created so much growth that revenue came in higher than it would have.

Will Apple Pay?

MT: Will repatriation lead to job growth or are we looking at a scenario where money simply returns to shareholders?

Gale: Repatriation is not a geographic concept, it's a tax concept. The money is not literally sitting offshore or buried in some vault in a third world country. It's in an account of a New York bank, and it's being lent out to finance loans either to the U.S. or the world economy.

When U.S. companies make profits overseas, they don't have to pay taxes on those profits until they repatriate them, which is essentially bringing them back to the parent company, so that they could pay it out as dividends. They can't just pay it out from the foreign affiliate to the owners of the parent. They do have to pay taxes on it at some point before it goes out as dividends. So the notion that the money is sitting offshore or parked offshore is just fundamentally wrong in an economic sense. The only thing that's limited is you can't use the money to pay dividends or to buy back shares.

Moore: I looked at the evidence, and about one-third of the money was used for new labs and equipment and business spending. About one-third of it was used for dividend payments to shareholders, and about one-third of it was paid to buy back company stock. Those are all good things. You have businesses that expanded their operations and increased employment. Why is it a bad thing if you pay out dividends to shareholders? The shareholders have more money that they can spend and invest. Stock buybacks are a way to increase the value of the stocks, and who owns those stocks? Americans do in their retirement accounts. Making American companies more valuable and profitable is good for everyone. We got a lot of our money back, and that's why we should do it again.

Gale: In 2004, we did a temporary repatriation tax holiday. For a temporary period, there was a much lower rate. You couldn't qualify for the lower tax unless you swore up and down that you were going to use the money for new jobs or a new investment. But studies eventually showed that the firms that did this didn't create any more jobs than anybody else, and didn't invest more than anyone. But their dividends and their buybacks did go up.

“The country that has the best tax system is Hong Kong; they have a 15% flat tax. That would be a dream come true for America.”

– Stephen Moore

Flat Tax

MT: Should we have a flat tax?

Gale: There are two separate issues here. One is the simplification, and the other is the rate structure. And the flat tax combines the two of them. Let's talk about simplification. Everybody thinks the tax system should be simpler; and yet every year it gets more complicated. The political dynamics of that is very interesting. Everyone will take their targeted tax break in exchange for a little more complexity. The result is the situation that you have. I would love it if we could clean house on a lot of these nonsensical subsidies in the tax code from the perspective of the economy. However, they got into the tax code, because someone in Congress put them there.

I was a huge advocate of simplification efforts 20 years ago, and wrote a lot about it. And I now kind of look at that as the fervor of my youth. I don't see that we're going to get simplification anytime. It's just, everybody wants their own tax break.

If you ask people how much more would you willing to pay in taxes in order to simplify your filing, I don't think people would pay a lot. I would love it if we simplified the tax system. I just don't think it's likely.

MT: Steve is the advocate of the flat tax. Would we see lobbyists and IRS officials go home if we had that type of simpler code?

Forbes: Well, if you do it right then many of those lobbyists will have to find other lines of work. There's always a need for Uber drivers. Even though I'm a conservative, I would support job retraining [and] grants.

Gale: Forbes has said [if] we had the flat tax lobbyists would go home. There'd be no lobbyists. But that's just ludicrous. [A flat tax] would start the game



“In a major survey of the world’s leading economists from across the ideological spectrum, support for the idea that tax cuts pay for themselves was zero”

– Austan Goolsbee

Austan Goolsbee is the Robert P. Gwinn Professor of Economics at the University of Chicago and previously served as the Chairman of the Council of Economic Advisers under President Obama.

over at a different spot. The notion that major interests would not represent themselves to the tax writing committees of Congress is ridiculous. The game is never going to be over. It’s just going to keep moving. One of the things about the flat tax that’s so interesting is that it’s basically a massive tax cut for the rich. Where they don’t say that, they say we’re simplifying the tax system. And so the rate structure argument is different from the simplification argument. The vast majority of the complexity in the tax system comes from the tax base, not from the rate structure. A little bit comes from the rate structure because of marriage penalties and other small things. But most of it is due to the separate rate for capital gains.

What is your stance on the Value Added Tax (VAT)?

Moore: If you were to totally eliminate the corporate tax and move towards a value-added tax, that would be the right thing to do. A value-added tax is a low rate, broad-based system that would be highly efficient for the American economy, but we don’t want to end up like Europe where we have a value added tax and a business tax. This idea of a border tax right now is a poison pill. It would destroy the bill and I’d recommend it to the White House and to Paul Ryan to drop the border tax.

Johnson: A Value Added Tax is the best way to ensure that you will never have low taxes again.

Goolsbee: My view is that it can’t be done in isolation from the rest of the tax system. They are efficient types of taxation but also fairly regressive types. But, you can make progressive consumption taxes and it’s worth considering such systems instead of progressive income taxes if you are starting from scratch.

Norquist: Replacing the corporate income tax with a value added tax would be temporary. The next time the Democrats won the House, Senate and Presidency, they would return the corporate income tax and keep the VAT. Then we would have a VAT, a personal and corporate income tax—and be France.

Perspective

MT: Are there other nations you look at and think that they have a better tax system than we do?

Moore: The country that has the best tax system is Hong Kong; they have a 15% flat tax. That would be a dream come true for America.

Forbes: Hong Kong.

Johnson: Estonia. But you have to remember where their system came from. They set this simplified system up after the collapse of the Soviet Union.

Goolsbee: Other countries, advanced countries have basically adopted tax systems with lower corporate rates (but limited pass-throughs), higher individual rates and big VAT/consumption taxes. You could argue that such systems encourage production in those countries, but they only do that by having domestic consumers and income earners pay for it.

MT: You all ring unique perspectives, but is there anything on the other side of the aisle that you can agree with when it comes to taxes?

Forbes: There are some Democrats who oppose corporate welfare such as the Export-Import Bank. They are hurting the very people they claim to represent. They oppose choice, they are cravenly in the hands of the unions; whether it's taxes, healthcare, education, entitlements in the future for young people or a sounder Social Security system for young people. It is hard to find much area of agreement right now.

Goolsbee: Revenue neutral cutting of the corporate rate. The idea that the United States needs to have a more competitive corporate tax system is one that I agree with and could definitely support if it were done in a revenue-neutral style.

Moore: The consensus in the 1980s of lower rates for a broader base doesn't exist today. Most Democrats want a broader base and higher rates, not lower rates. There are very few if any Democrats today that have sane ideas about taxes. They want to raise them. They want to soak the rich. They want to soak businesses, and that's not going to help jobs, it's going to hurt them.

MT: When Modern Trader attended the 2017 SALT Conference, one of the stories that buzzed was the possibility that reform would lead to individuals being able to shift personal income to business income. Austan Goolsbee referenced earlier that partnerships would be able to drop their rates down to 15%. What are your thoughts on this potential loophole?

Norquist: The administration and House Republicans have made it clear they will be strict in requiring that wage income be taxed as wage income, and business income would be recognized as business income. You can't simply announce that you are a corporation and pay 15%. That will not be allowed under the system. The *New York Times* is free to say that somebody might sneak past, but this is not reducing all personal income tax to 15%. [That level] is a place I'd like to go soon, but that's not what's happening right now.

Moore: To be considered a business, you need to have employees; you have to reinvest the money in the

“We know what’s wrong with the tax system: It’s too complicated, the rates are too high, the compliance costs are too high. It is inequitable that some people pay high taxes and other people in similar economic situations pay almost no tax.”

– Stephen Moore

company. We don't want people to take money out of the company. We want them to reinvest money in the business. We want to make sure that people aren't gaming the system. You have to build some rules, but it's not that complicated. You could do that really easily to prevent abuses.

Ending the Debate

MT: What story is missing from the debate? Is there anything that the mainstream press is missing or an issue that you wished people would discuss more today?

Moore: The biggest issue not understood by the media is that we require much faster economic growth if we're going to solve any economic problems in this country. Whether it's income inequality, the education crisis, the infrastructure crisis, or the budget deficit, all of these things depend on faster economic growth. One of the easiest ways to increase economic growth is to fundamentally reform our tax system. That's missed in the debate. All these people say you can't get more growth by cutting taxes. I say, what about what happened under Kennedy? What happened under Reagan? If taxes don't matter, why is it that the no-income-tax states like Florida, Texas and Tennessee are growing two and three times faster than [higher tax] states, like New York, Connecticut, and California?

Goolsbee: This is not an accurate assessment. Steve [Moore] started saying [what he said above] when the oil economy was booming and low tax states were doing well (the tax foundation started making this claim in 2011 and 2012). But he kept saying this even after the oil boom chilled and California, Massachusetts,



“The country that has the best tax system is Hong Kong, they have a 15% flat tax. That would be a dream come true for America.”

– **Stephen Moore**

Stephen Moore is the Distinguished Visiting Fellow, Project for Economic Growth, at The Heritage Foundation.

and many high tax states began growing faster than the low-tax states. Also, under Jack Kennedy the rate started at over 90%. Almost everyone agrees that cutting from such a high base is a reasonable thing to do.

Norquist: Ronald Reagan took the top marginal tax rate from 70 to 28%, but engaged in the kind of tax increases that the Democrats insisted on. But saying “Reagan raised taxes” is like saying George Washington lost battles. Yeah, he did, but he won the war, and he wasn’t trying to lose battles. He lost battles because his enemies beat him. And Reagan raised taxes, signed tax increases, because his enemies beat him sometimes.

Forbes: I’ve been asked almost every question about tax reform, especially when I ran for president. They didn’t leave too much unexamined there. I wish the

mainstream media would ask: ‘How much better off we would have been with the flat tax?’ Just increase your income by 50% for starters. Maybe double because it’s been 20 years [and] compounding adds up. Just take the six billion hours a year that the IRS estimates we spend on filling out tax forms. Take the billions that experts estimate we spend complying with the tax code, and multiply it by 20 years. Think of all those tens of billions of hours, trillions of dollars if it had been invested in creating new products, new services, new medical devices, and new cures for diseases, instead of this idiotic, corrupt tax code. How much better off would we have been? This is a moral issue.

Moore: We should discuss alternatives. For example, if you had a national sales tax and got rid of the income tax, imagine how many jobs you’d get in this country? It would be unbelievable. We’d have more jobs than we’d have people. You think we got an immigration problem now, people would swim here, or they’d parachute in, or they’d build tunnels to get into this country, we’d have so many jobs. Something that would create that much growth is explosively progressive in terms of raising everyone’s income.

Johnson: I wish people would focus more time asking, “What is the actual problem with the tax system?” In that regard, it’s the coercion of the tax system. Entities don’t have to earn those dollars. Taxpayers have no direct response when government agencies fail to achieve what they say they will achieve with tax dollars. The private sector and non-profit sector should be able to compete for this money.

The vast majority of human welfare is already provided by nonprofits, for-profits and informal groups. Private companies build the roads, bridges, tunnels and buildings. Supermarkets and food banks provide food, shelter is provided by everyone from apartment owners to pastors. Hospitals provide healthcare, consumer associations protect us from harmful products, etc. And in every other area of life outside taxes, we can hold these organizations directly accountable with our dollars. Public services should be provided the same way.

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“Taxpayers have no direct response when government agencies fail to achieve what they say they will achieve with tax dollars. The private sector and non-profit sector should be able to compete for this money.”

– Dan Johnson

Dan Johnson is the Executive Director of the Tax Revolution Institute, a non-partisan, non-profit organization committed to researching and developing innovative, voluntary tax solutions.

MT: Dan, you advocated for competition and non-profits to help manage some of the social and economic issue we face. What if there is too much scale and too many problems?

Johnson: During the past 100 years, Americans have consistently paid more and more taxes to their local, state and Federal governments. Today, approximately half of our income is going to government to solve social problems, and look around you. Has it?

The solution to complex social and economic issues isn't to reduce the amount of solutions, or the number of people working towards solutions. The government has had at the very least a hit-or-miss record on solving complex social problems, and it seems counterproductive to put all our eggs in one basket to solve social and economic problems, especially with millions of organizations and companies with significant experience solving these issues already.

Our Conclusion

On the surface, economists and advocates from a variety of schools and perspectives all agree that corporate tax reform would provide distinct value to the U.S. economy. However, we see that any discussion of tax reform quickly pivots to a different conversation on class warfare.

The backdrop of today's corporate tax reform debate is a comparison to the 1986 reform led by both Democrats and Republicans. Today, the poisonous rhetoric spilling from the halls of Capitol Hill has made cooperation a fleeting possibility. Centrist Democrats remain largely in lock-step with liberal counterparts and in fear of a liberal base seeking to primary candidates. Republicans, however, remain equally divided as evidenced by the failed effort to repeal and replace the Affordable Healthcare Act within Trump's first 100 days.

If tax reform remains critical for the U.S. economy – and it is based on the responses in this roundtable – Republicans must be willing to go it alone. ▲

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