#### Ben and I Negate.

### Contention One is Reducing Tax Incentives

Abolishing the capital gains tax removes tax incentives involved that are beneficial. There are two critical tax incentivizes that would be lost.

First, charitable donations.

[Annino](https://www.journalofaccountancy.com/newsletters/2015/sep/charitable-bailouts-can-save-c-corp-clients-taxes.html) of the Journal of Accountability writes in 2015 that the capital gains tax incentivizes corporations to donate stock to charities because the corporations receive a tax deduction to avoid paying the capital gains tax. [Greenberg](https://taxfoundation.org/investment-donations-and-charitable-deduction/) of the Tax Foundation quantifies in 2015 that the capital gains tax incentivized over 130,000 donations to charities. That’s why the [Charities Aid Foundation](https://futureworldgiving.org/2014/12/01/tax-incentives-for-giving-are-effective-even-in-low-income-countries-rules-to-give-by-index-published/) quantifies that countries with tax incentives for charity, experience 12% more donations than other countries.Critically, [Liz Baumgarten](http://www1.udel.edu/ccrs/NPMCC_2006_Materials/Deb_Auger/Building_Capacity_Article.pdf) of the CLPI impacts in 2004 that charities effectively lobby the government to enact positive policies. With no capital gains tax, there is no longer an incentive to donate.

Second, is revitalizing poor neighborhoods

The [Economic Innovation Group](https://medium.com/the-investing-in-opportunity-act/the-investing-in-opportunity-act-factsheet-c068deba2b2e) explains in 2017 that there are more than 50 million Americans living in distressed communities that lack jobs and businesses. Fortunately, [David Bank](https://news.impactalpha.com/the-new-loophole-in-the-u-s-tax-bill-that-could-draw-private-capital-to-distressed-communities-1205b62ec990) of ImpactAlpha writes in 2018 that the new Investing for Opportunities Act passed last December lets investors reduce their capital gains tax rate if they invest in distressed communities for seven years. Ultimately, [Hinkle-Brown](https://medium.com/the-investing-in-opportunity-act/investing-in-opportunity-act-314d797bf2f) of Medium writes in 2017 that this incentivizes investors to direct over 2 trillion dollars in unrealized capital gains into startups, small businesses, and infrastructure in impoverished communities.

The impact of these incentives is revitalizing inner cities.

[Porter](https://hbr.org/1995/05/the-competitive-advantage-of-the-inner-city) of the Harvard Business Review explains that the lack of businesses and investment in inner cities fuels a crushing cycle of poverty, drug abuse, and crime. Indeed, [Sanburn](http://time.com/4651122/homicides-increase-cities-2016/) of TIME quantifies in 2017 that there are 6000 homicides in inner cities annually. Ultimately, [Heller](http://home.uchicago.edu/ludwigj/papers/NBER%20family%20income%202011.pdf) of the University of Chicago impacts in 2011 that a 40% decrease in neighborhood poverty reduces violent crime by 40%.

### Contention Two is Stabilizing the Economy

Abolishing the capital gains tax heightens economic instability in two ways.

First, stock fluctuations.

[Amadeo](https://www.thebalance.com/what-is-the-capital-gains-tax-3305824) of The Balance explains in 2017 that the government taxes short-term capital gains at a higher rate than long-term capital gains to discourage the short-term trading that cause dangerous volatility. [Shackelford](http://www.nber.org/reporter/fall04/shackelford.html) of the National Bureau of Economic Research writes in 2009 that lower capital gains tax rates increase pressure on stock prices, exacerbating volatility. Ultimately, [Zhang](https://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Events/conferences/symposia/2007/shackelford-paper.pdf) of the University of Texas at Dallas quantifies in 2007 that an 8% reduction in the capital gains tax increases stock volatility by 3%.

**Second, eliminating fiscal stabilizers.**

[Steinberg](https://www.americanprogress.org/issues/economy/reports/2014/03/31/86693/the-safety-net-is-good-economic-policy/) of the Center for American Progress explains in 2014 that safety net programs serve as automatic stabilizers during recessions by boosting spending and reducing recession severity. Unfortunately, the [Center on Budget and Policy Priorities](https://www.cbpp.org/research/tax-cuts-myths-and-realities) explains in 2008 that a 5% decrease in the capital gains tax adds $100 billion to the deficit. Critically, [Zelizer](https://www.theatlantic.com/politics/archive/2017/12/blowing-up-the-deficit-is-part-of-the-plan/548720/) of The Atlantic writes that deficit increases give conservatives the cover to enact massive spending cuts to automatic stabilizers, taking away benefits that millions rely on during recessions. This would be devastating as [McKay](http://www.hec.ca/iea/seminaires/McKayReis-AutoStab.pdf) of Boston University concludes in 2012 that if automatic stabilizers were reduced by 0.6% of the GDP, economic output volatility would increase by 7%.

Ultimately, the [NCPERS](http://www.ncpers.org/files/Economic%20Volatility%20May%202016.pdf) finalizes in 2016 that economic volatility causes wild economic swings, such as sudden economic recessions.

**The impact is entrenching poverty.**

[Rycroft](https://books.google.com/books/about/The_American_Middle_Class_An_Economic_En.html?id=TLGzDgAAQBAJ) of the University of Mary Washington explains in 2017 that recessions disproportionately impact middle and lower classes. Without automatic stabilizers to fall back on, low income households drastically reduce living standards during downturns. Moreover, [Miller](http://tkuir.lib.tku.edu.tw:8080/dspace/bitstream/987654321/99604/2/%E5%85%A8%E6%96%87.pdf) of UNLV explains in 2014 that when the economy becomes more volatile, workers accept lower wages because they desperately need a stable income. Thus, Miller quantifies that a 1% increase in volatility increases inequality by 1.33%.

This is the most important impact in the round, because [Irons](http://www.epi.org/publication/bp243/) of the Economic Policy Institute explains in 2009 that recessions entrench the poor in poverty as hardships of parents create economic barriers to success for their children, since they lose the means to advance in society. Thus, the [Children’s Defense Fund](http://www.childrensdefense.org/newsroom/mediaresources/ending-child-poverty-now.pdf) quantifies in 2015 that children exposed to poverty are three times more likely to fall back into poverty than others, creating a cycle that decreases GDP by at least 3.8%.

**In order to help those in need, we negate.**

### Cards

#### Annino 15

[Patricia M Annino, 9-21-2015. "Charitable bailouts can save your C corporation clients big on taxes." Journal of Accountancy. https://www.journalofaccountancy.com/newsletters/2015/sep/charitable-bailouts-can-save-c-corp-clients-taxes.html] //BH

But if a C corporation owner client is philanthropically inclined and would like to remove the earnings from the company while still maintaining a controlling position of its stock, it may be time to explore a charitable bailout. That’s because this technique can help the donor achieve his or her charitable objectives, avoid capital gains tax, and distribute excess cash that has been accumulated in the corporation tax-free. If the owner’s succession plan involves transferring ownership of the company to his or her children, the owner can also achieve this goal through a charitable bailout. In a charitable bailout, a corporation’s owner gifts stock in the corporation to a charity, and the corporation then redeems the stock using the corporation’s retained cash. Both the gift of the stock and its redemption are income-tax-free. If the charity is public and if the donor has held the stock for more than one year, the donor is entitled to an income tax deduction for the fair market value of the stock under Sec. 170(b)(1). If the gift is made to a charitable organization that is not a public charity, the income tax deduction is limited to the donor’s basis in the stock under Sec. 170(e)(1). Stockholders may choose to donate the stock to a charitable remainder trust for redemption. Normally, if a charity is a private foundation or a charitable remainder trust, a redemption would violate the self-dealing rules. However, a “corporate adjustment” exception of Sec. 4941(d)(2)(F) permits redemptions when all stock of the same class as the donated stock is “subject to the same terms” and the charity receives at least fair market value for the stock. To be “subject to the same terms,” the corporation must make a bona fide redemption offer on a uniform basis to the charity and every other stockholder. Why use charitable bailouts? The charitable bailout can be very beneficial to all parties involved. It allows a charity to receive cash and a corporation to bail out its accumulated cash while the donor avoids any built-in capital gains tax on the donated stock. The capital gain on the redeemed stock is considered passive income and, as gain from the sale of property, is exempt from the unrelated business income tax (UBIT) under Sec. 512(b). Charitable bailouts have far better tax consequences than direct donations by a stockholder. If a corporation paid a dividend to the stockholder that the stockholder then contributed to the charity, the stockholder would then owe income tax on the dividend. But, with a charitable bailout, the stockholder can claim the charitable income tax deduction for the donated stock (subject to the 30% and 50% limits of Sec. 170). Though it is the stockholder, not the corporation, who receives credit for the gift, it is the corporation’s cash, not the stockholder’s cash, that is being used. A corporation that has accumulated significant cash will have less cash after a charitable bailout, and thus be less likely to be subject to the accumulated earnings tax. The charitable bailout technique can also be useful in succession planning. If parents and children all own stock in a C corporation, the parents could reduce or eliminate their ownership stake by contributing their stock to a charitable remainder trust, which stock the company could then redeem. For this strategy to be effective, the children must be stockholders prior to the redemption and the corporation must have sufficient cash to effectuate the redemption. (See IRS Letter Rulings 200720021 and 9338046. Redemption by a note and not cash is a prohibited act of self-dealing).

#### Greenberg 15

[Scott Greenberg, 6-23-2015. "Investment Donations and the Charitable Deduction." Tax Foundation. https://taxfoundation.org/investment-donations-and-charitable-deduction/] //BH

One of the most important reasons why investments represent such a large portion of deductible noncash contributions is the well-known tax advantage of donating stock to charity. Individuals who contribute “capital gain property” they have held for more than a year to a charitable organization are generally exempt from capital gains taxes on that property. This means that individuals can often avoid substantial taxation on their investments if they donate them to charity and count them as a deduction. Only a small number of taxpayers take advantage of the opportunity to avoid capital gains taxes by donating investments. Out of the 7.5 million taxpayers who filled out Form 8283 to report noncash donations greater than $500, only 134,029 returns listed donations of investments, less than 1.8%. Yet, the donations reported on these few returns accounted for more than half of the value of all noncash contributions in 2012 – in part because the donors in question are mostly high-income. Some 86.1% of taxpayers who reported donations of corporate stock, mutual funds, and other investments on Form 8283 had more than $100,000 in Adjusted Gross Income. Furthermore, 56.5% of the value of all reported investment donations in 2012 came from donors who made more than $10 million. Just as wealthy Americans disproportionately benefit from the charitable deduction overall, high-income taxpayers are the ones taking advantage of the opportunity to donate investments without paying capital gains taxation.

#### Charities Aid Foundation 14

[No Author, 12-1-2014. "Tax incentives for giving are effective, even in Low Income countries – Rules to Give By Index published." Future World Giving. https://futureworldgiving.org/2014/12/01/tax-incentives-for-giving-are-effective-even-in-low-income-countries-rules-to-give-by-index-published/] //BH

The Rules to Give By Index​,​ the world’s first international index of government support for charitable giving, found that the percentage of people donating money to charity is 12 percentage points higher in nations offering tax incentives to individuals (33 percent) than in those that do not (21 percent). This groundbreaking study – the product of a collaboration between Nexus, McDermott Will & Emery LLP, and the Charities Aid Foundation (CAF) – looks at the presence of certain legal, regulatory and tax instruments that help to encourage charitable giving in all 193 nations that are recognised by the United Nations. As well as producing an index that scores countries by their legal environment for charitable giving, the partners have published a individual country report for every nation which can be found on the Nexus website. The study compared tax incentives and other aspects of charity law to people’s likelihood to give as measured by the CAF’s World Giving Index, the international index of generosity. It found that the influence of tax incentives on giving does not depend on a country’s level of economic development. Across the economic spectrum, countries which offer tax incentives to individuals see higher rates of people giving money to charity according to the CAF’s World Giving Index, the global index of generosity.

#### Baumgarten 4

[Liz Baumgarten, June 2004. "Building Capacity for Public Policy Advocacy." Charity Lobbying in the Public Interest. http://www1.udel.edu/ccrs/NPMCC\_2006\_Materials/Deb\_Auger/Building\_Capacity\_Article.pdf] //BH

However, organizations that both provide services and engage in advocacy see themselves as partners with government on common issues of concern. Discussion with policymakers regarding disagreements over policy and/or solutions to those problems should be based on the assumption that nonprofit leaders and those policymakers are peers. This is sometimes a matter of presentation — holding one’s head high when meeting with government officials — and always a matter of recognizing the power an organization wields. The knowledge and understanding of constituents’ needs is crucial information for policymakers, as is the ability to assure voters that those needs are being met through combined government-community efforts. Thus, nonprofits should be encouraged to embrace a major source of power: the reality that they represent a block of voting constituents and stakeholders (such as board members and even funders) who are well-connected and willing to use those connections. Limited financial resources serve as a barrier also to the extent that there is a dearth of funds available to be dedicated to advocacy efforts when an organization is struggling to provide critical direct services. Yet, as mentioned above, a plan to advocate change in policies and seek long-term solutions can actually attract funding - especially individual donations and even foundation support. Nonprofit leaders who engage in the policymaking process are seen as experts in their area and leaders in the community. Indeed, every fundraising course should include participation in the public policy process as an effective strategy. My own experience as a past executive director of a statewide nonprofit organization illustrates the link between advocacy and fundraising. The organization was dedicated to the establishment of service-learning programs at colleges across the state. There were many programs established to this end. However, given the organization’s close proximity to Washington D.C. and my own background in policy work, I became involved in the effort to draft and pass legislation to create a national community service corps - what eventually became AmeriCorps. I participated in working groups to draft the legislation - lending expertise from the state level and representing higher education. Once the legislation was drafted, I developed relationships with our state’s delegation and their staff and lobbied for passage of the bill. By the time the bill was enacted as law, I was seen by the federal agency leadership in Washington as well as my state’s leaders as the primary contact for service learning and higher education in Virginia. Accordingly, when the first grants were awarded under Americorps, my organization received the largest grant for the state in higher education and I was asked to chair the state working group for implementation.

#### Economic Innovation Group 17

[Economic Innovation Group, 2-2-2017. "The Investing in Opportunity Act Factsheet – The Investing in Opportunity Act – Medium." Medium. https://medium.com/the-investing-in-opportunity-act/the-investing-in-opportunity-act-factsheet-c068deba2b2e] //BH

enators Tim Scott (R-SC) and Cory Booker (D-NJ) and Congressmen Pat Tiberi (R-OH) and Ron Kind (D-WI) introduced the Investing in Opportunity Act (H.R.828/S.293) to help revitalize economically distressed communities suffering from a lack of investment and new business growth. Today, the map of economic growth is becoming increasingly uneven, and more than 50 million Americans live in a distressed community that has seen continued loss of jobs and businesses — in spite of the national economic recovery. Meanwhile, American investors have trillions of dollars of inactive capital that, if reinvested, could be an important new source for catalyzing growth and opportunity in communities in every state. These new dollars could help stem the tide of business closures, restore access to capital for emerging enterprises, and rekindle entrepreneurship in areas that need it most. The Investing in Opportunity Act encourages new investment in distressed communities by: Allowing investors to temporarily defer capital gains recognition if they reinvest into an “Opportunity Zone.” U.S. investors currently hold an estimated $2.3 trillion in unrealized capital gains on stocks and mutual funds alone — a significant untapped resource for economic development. This legislation allows investors to temporarily defer capital gains recognition from the sale of an appreciated asset, but only if they reinvest the gains into qualified assets in an Opportunity Zone. This will remove the tax disincentive for investors to roll assets into distressed communities, and preserve a larger amount of capital for investment in such areas.

#### Bank 18

[David Bank, 1-2-2018. "The new loophole in the U.S. tax bill that could draw private capital to distressed communities." ImpactAlpha. https://news.impactalpha.com/the-new-loophole-in-the-u-s-tax-bill-that-could-draw-private-capital-to-distressed-communities-1205b62ec990] //BH

The intention to generate social or environmental benefit is key to impact investing. But a tax break can be an additional incentive. Among the many provisions of the Republican tax bill signed by President Trump last month is the new “Investing for Opportunities Act,” which lets investors temporarily defer taxes by investing their capital gains in distressed areas designated as “opportunity zones.” Such capital gains taxes can be reduced if such investments are held for five to seven years. The bill also creates “opportunity funds,” or “O Funds,” that help investors locate, execute and share risk on investments in low-income neighborhoods. With as much as $2.3 trillion in unrealized capital gains in U.S. stocks and mutual funds, the new provision could draw significant investment to low-income communities. The legislation was based on an idea pushed by the Economic Innovation Group, a D.C. entrepreneurship think tank, and was introduced last year by Sens. Tim Scott (R-SC) and Cory Booker (D-NJ) and Reps. Pat Tiberi (R-OH) and Ron Kind (D-WI).

#### Hinkle-Brown 17

[Don Hinkle-Brownfollow, 2-2-2017. "Investing in Opportunity Act – The Investing in Opportunity Act – Medium." Medium. https://medium.com/the-investing-in-opportunity-act/investing-in-opportunity-act-314d797bf2f] //BH

According to research by the Economic Innovation Group, more than 50 million Americans live in economically distressed communities, often exacerbated by the collapse in business startups. In the latest recovery, just 20 counties generated half of all startups in the country. In order to create new jobs and opportunities for every American, we have to start by ensuring capital exists to help would-be entrepreneurs and others build enterprise in distressed communities. The good news is there is a bipartisan group in Congress, led by Senators Booker and Scott and Congressman Kind and Tiberi, that recently reintroduced legislation to incentivize private sector investment in distressed communities: the Investing in Opportunity Act (IIOA). The Investing in Opportunity Act would incentivize investors to direct the estimated $2.3 trillion in unrealized capital gains into startups, small businesses, real estate, infrastructure, and more in capital-starved American communities. It also would create Opportunity Funds, enabling average investors to direct a percentage of their funds into long-term investments in distressed communities. This is a novel way to meaningfully increase critical long-term investments in the areas that need it most. For the Reinvestment Fund, which has the expertise and experience of investing in distressed communities, this bill will bring the much needed capital that can truly harness the entrepreneurial potential in local communities. We urge Congress to pass the Investing in Opportunity Act and give American innovators and entrepreneurs the chance to make meaningful steps towards revitalizing distressed neighborhoods.

#### Porter 95

[Michael E. Porter, 1995. "The Competitive Advantage of the Inner City." Harvard Business Review. https://hbr.org/1995/05/the-competitive-advantage-of-the-inner-city] //BH

The economic distress of America’s inner cities may be the most pressing issue facing the nation. The lack of businesses and jobs in disadvantaged urban areas fuels not only a crushing cycle of poverty but also crippling social problems, such as drug abuse and crime. And, as the inner cities continue to deteriorate, the debate on how to aid them grows increasingly divisive. The sad reality is that the efforts of the past few decades to revitalize the inner cities have failed. The establishment of a sustainable economic base—and with it employment opportunities, wealth creation, role models, and improved local infrastructure—still eludes us despite the investment of substantial resources. Past efforts have been guided by a social model built around meeting the needs of individuals. Aid to inner cities, then, has largely taken the form of relief programs such as income assistance, housing subsidies, and food stamps, all of which address highly visible—and real—social needs. Programs aimed more directly at economic development have been fragmented and ineffective. These piecemeal approaches have usually taken the form of subsidies, preference programs, or expensive efforts to stimulate economic activity in tangential fields such as housing, real estate, and neighborhood development. Lacking an overall strategy, such programs have treated the inner city as an island isolated from the surrounding economy and subject to its own unique laws of competition. They have encouraged and supported small, subscale businesses designed to serve the local community but ill equipped to attract the community’s own spending power, much less export outside it. In short, the social model has inadvertently undermined the creation of economically viable companies. Without such companies and the jobs they create, the social problems will only worsen.

#### Sanburn 17

[Josh Sanburn and David Johnson, 1-30-2017. "Violent Crime Is On the Rise in U.S. Cities." Time. http://time.com/4651122/homicides-increase-cities-2016/] //BH

Violent crime increased in many of the nation’s largest cities in 2016, the second year in a row that metro areas saw jumps in homicide, robbery and aggravated assault. According to the Major Cities Chiefs Association, which collected data from 61 metropolitan police agencies, U.S. cities saw 6,407 homicides in 2016, an 11% increase from the year before. Dallas, Las Vegas, Louisville, Memphis, Phoenix and San Jose all saw rises in killings last year, as did some smaller cities that typically have very low murder rates. Arlington, Texas, for example, had 4 homicides in 2015 but 18 in 2016; Salt Lake City saw 6 in 2015 compared with 14 last year. Darrel Stephens, the MCCA’s executive director, cautions that it’s too early to know whether increases seen over the last two years are mere blips or the beginning of a sustained increase in overall crime rates around the country. Criminologists often say it takes at least three to five years of data to show true trend lines. President Donald Trump routinely portrays crime in the country’s inner cities as out of control. Last week, he tweeted a vague threat to “send in the feds” in Chicago if the city didn’t lower its crime rates. But even with the recent increases, crime remains near all-time lows. “We’ve had at least two years running now where there’s been an increase in 35 to 45 major cities,” Stephens says. “It’s a major issue and should be in the cities where it’s taking place. But it’s not anywhere near the kind of violence that we had in the 1990s.”

#### Heller 11

Philip J. Cook, Jens Ludwig, and Justin McCrary, 2011. Controlling Crime: Strategies and Tradeoffs. University of Chicago Press. http://home.uchicago.edu/ludwigj/papers/NBER%20family%20income%202011.pdf

In terms of mobility programs, a 40 percent decrease in neighborhood poverty rates (off of a base of around 40 percent tract poverty rate) leads to about a 40 percent decline in arrests for violent crime (Kling, Ludwig, and Katz 2005; Ludwig et al. 2010). Male property crime, however, may increase, although the two mobility studies we discuss provide confl icting evidence on this possibility. In terms of mechanisms, moves to lower- poverty areas seem to increase educational outcomes of girls and the mental health of parents but not parental income or employment (Kling, Leibman, and Katz 2007). The following section discusses these fi ndings in greater detail. We begin with evidence on the effects of additional family income and then turn to the effects of mobility policies designed to deconcentrate neighborhood poverty. 9.4.1 The Effects of Family Poverty on Crime Our review of the literature focuses on the question of greatest relevance for policy: would reducing poverty also reduce crime, and, if so, how can we maximize the cost- effectiveness of each dollar spent? The fi rst step in answering this question is to establish whether there really is a causal relationship between income and crime.

#### Amadeo 17

[Kimberly Amadeo, 12-27-2017. "Should Investment Income Be Taxed Less Than Employment Income?." Balance. https://www.thebalance.com/what-is-the-capital-gains-tax-3305824] //BH

The federal government taxes all capital gains. It taxes short-term capital gains at a higher rate than long-term capital gains. This is to discourage short-term trading, which can increase dangerous volatility. In 2013, the Affordable Care Act raised rates on long-term capital gains. It applies to singles who make more than $200,000 a year, married couples filing jointly who earn more than $250,000 jointly, and married couples filing separately who earn more than $125,000 a year. They must pay an extra 3.8 percent tax on the lesser of (a) investment income such as dividends and capital gains or (b) adjusted gross income that is above the threshold. The Obamacare tax also applies to capital gains from selling a home or other real estate for personal use for those earning above the threshold. Also, capital gains must be greater than $250,000 (singles) or $500,000 (married couples).

#### Shackleford 9

Douglas A. Schackelford. "Capital Gains Taxes and Equity Prices." National Bureau of Economic Research Nber.org. 21 Oct. 2009. Web. 24 Jan. 2018. <http://www.nber.org/reporter/fall04/shackelford.html>

We find that the tax variable is a determinant of equity trading for appreciated stocks around both earnings announcements and additions to the S&P 500 index. The supply of equity shrinks and prices rise with the tax penalty associated with short-term capital gains. The price movement is temporary, though, largely reversing after a week of trading**. This reversal implies that preferential treatment for long-term capital gains increases stock market volatility.** These results suggest that the pool of selling shareholders is so thin around these disclosures that buyers must tap one of the most tax-disadvantaged shareholder groups, that is, individual holders of appreciated shares who have not yet met the holding period requirement to qualify for long-term treatment. To attract these investors, buyers must provide additional compensation. In this regard, the results of this study are similar to those in my study with Landsman, where added compensation was required to attract sellers who faced larger taxes on their sales. The preliminary empirical evidence is consistent with capital gains taxes producing price pressure around heavy trading days. This pressure leads to increased volatility and drifts from fundamentals. In at least one case, the evidence suggests that the price movement may have spanned a longer period, although documenting the permanency of such price movements is difficult, if not impossible.

#### Zhang 7

Capital Gains Taxes and Stock Return Volatility." Harold H. Zhang University of Texas at Dallas Sbs.ox.ac.uk. 28 Oct. 2007. Web. 24 Jan. 2018. <https://www.sbs.ox.ac.uk/sites/default/files/Business\_Taxation/Events/conferences/symposia/2007/shackelford-paper.pdf>

**We demonstrate that capital gains tax changes inversely affect stock return volatility. A capital gains tax cut reduces the risk sharing between investors and the government and increases stock return volatility.** The tax effect on return volatility also differs depending upon the characteristics of stocks such as dividend distribution and embedded capital gains and losses. **Using the Tax Relief Act of 1997, we empirically show that the return volatility of the market index, industry portfolios, and individual stocks increases after the capital gains tax cut**. Furthermore, higher dividend-paying stocks experience smaller increase in return volatility than lower dividend-paying stocks and stocks with large embedded capital gains and losses see larger increase in return volatility than stocks with small embedded capital gains and losses. This paper examines the effect of capital gains taxes on asset return volatility. Existing studies on the effects of capital gains taxes on asset prices have primarily focused on the level of asset returns and on trading volume. The goal of this study is to investigate the relation between asset return volatility and capital gains taxes. We demonstrate that imposing capital gains taxes reduces asset return volatility because the government shares the gains and losses in assets held by investors subject to taxation upon realization. Our analysis relies on the role of financial markets in facilitating risk sharing between investors and the government in the presence of capital gains taxes**. A capital gains tax cut reduces risk sharing between investors and the government and has an adverse effect on individual investors’ consumption smoothing. This leads to a more volatile individual consumption growth rate and stochastic discount factor, resulting in a higher asset return volatility. Using the Tax Relief Act of 1997, we uncover strong evidence that a capital gains tax cut significantly increases the volatility of asset returns and the magnitude of increases in return volatility differs depending upon the characteristics of assets such as dividend distribution, embedded capital losses and gains, and the percentage of shares owned by tax sensitive investor**s. To our knowledge, this is the first study of the relation between asset return volatility and the capital gains taxes. Our empirical analysis on stock return volatility surrounding the 1997 capital gains tax rate cut provides strong support for our predictions on the effect of the capital gains tax change on stock return volatility. **For the market portfolio, we find the volatility of monthly excess return of the value-weighted CRSP stocks is more than 3 percent higher when the capital gains tax rate is reduced from 28 percent to 20 percent, after controlling for several variables which are widely documented to be important determinants of stock return volatility and the state of the economy**. Further, for five industry portfolios formed based on 4-digit SIC code including consumer industry, manufacturing industry, high tech industry, healthcare industry, and other industries, the 4 monthly return volatility is higher for all five portfolios when the capital gains tax rate is reduced, controlling for variables often identified to be important factors affecting return volatility. The increase in monthly return volatility ranges from 2.3 percent for the healthcare industry to 5 percent for the high tech industry. In addition, the increase in return volatility for all five industries is statistically significant (with four industries having p-value less than 1 percent and one industry p-value of 0.03).

#### Steinberg 14

Sarah Ayres Steinberg. "The Safety Net Is Good Economic Policy - Center for American Progress." Center for American Progress. 31 Mar. 2014. Web. 24 Jan. 2018. <<https://www.americanprogress.org/issues/economy/reports/2014/03/31/86693/the-safety-net-is-good-economic-policy/>>

The relationship between the poverty rate and the business cycle also suggests that anti-poverty programs successfully reduce poverty. If the safety net has no impact on poverty levels, one would expect that the poverty rate would closely track the business cycle—that it would rise or fall in proportion to changes in the unemployment rate. But the Council of Economic Advisers found that, despite record levels of unemployment during the Great Recession, the poverty level rose only 0.5 percentage points. **And it concluded that the safety net “almost entirely eliminates cyclical swings in the presence of deep poverty.” This means that the safety net lifts people out of poverty during times of high unemployment and slow economic growth. Moreover, safety net programs serve as automatic fiscal stabilizers that boost spending during economic downturns, reducing the severity of recessions and benefiting everyone**.

#### CBPP 8

Center on Budget and Policy Priorities. "Tax Cuts: Myths and Realities." Center on Budget and Policy Priorities. 17 Nov. 2008. Web. 24 Jan. 2018. <<https://www.cbpp.org/research/tax-cuts-myths-and-realities>>

Some argue that, even if most tax cuts do not pay for themselves, capital gains tax cuts do. **But, in reality, capital gains tax cuts cost money as well. After reviewing numerous studies of how investors respond to capital gains tax cuts, the Congressional Budget Office concluded that “the best estimates of taxpayers’ response to changes in the capital gains rate do not suggest a large revenue increase from additional realizations of capital gains — and certainly not an increase large enough to offset the losses from a lower rate.” That’s why CBO, the Joint Committee on Taxation, and the White House Office of Management and Budget all project that making the 2003 capital gains tax cut permanent would cost about $100 billion over the next ten years.**

#### Zelizer 17

Julian E. Zelizer. "Blowing Up the Deficit Is Part of the Plan." The Atlantic. Dec 2017. Web. 25 Jan. 2018. <<https://www.theatlantic.com/politics/archive/2017/12/blowing-up-the-deficit-is-part-of-the-plan/548720/>>

**Speaker of the House Paul Ryan has already announced that the GOP plans to cut federal health care and anti-poverty programs because of a deficit that his party is about to balloon**. “We’re going to have to get back next year at entitlement reform,” he said on a talk-radio show, “which is how you tackle the debt and the deficit.” This is exactly how what President Ronald Reagan’s budget director, David Stockman, called “starving the beast” works. **By creating a fiscal straitjacket through lower taxes, conservatives leave Washington with less money and raise the specter of deficits damaging the economy as a rationale to take away the benefits that millions of Americans depend on. If they are not fiscally conservative right now, they can be when it comes time to talk about spending on the poor and disadvantaged. While the right usually encounters a fierce backlash whenever they try to retrench specific federal benefits**, as the GOP recently discovered with their failed attempt to repeal and replace the Affordable Care Act, **cutting budgets in the name of deficit reduction has traditionally offered a less toxic mechanism for achieving the same goal**.

#### McKay 12

Alisfair McKay. "The role of automatic stabilizers in the U.S. business cycle.." Boston University Hec.ca. 22 August 2012. Web. 24 Jan. 2018. <<http://www.hec.ca/iea/seminaires/McKayReis-AutoStab.pdf>>

Most countries have automatic rules in their tax-and-transfer systems that are partly intended to stabilize economic fluctuations. This paper measures how effective they are at lowering the volatility of U.S. economic activity. We identify seven potential stabilizers in the data and include four theoretical channels through which they may operate in a business cycle model calibrated to the U.S. data. The model is used to compare the volatility of output in the data with counterfactuals where some, or all, of the stabilizers are shut down. Our first finding is that proportional taxes, like sales, property and corporate income taxes, contribute little to stabilization. Our second finding is that a progressive personal income tax can be effective at stabilizing fluctuations but at the same time leads to significantly lower average output. **Our third finding is that safety-net transfers lower the volatility of output with little cost in terms of average output, but they significantly raise the variance of aggregate consumption. Overall, we estimate that if the automatic stabilizers were scaled back in size by 0.6% of GDP, then U.S. output would be about 7% more volatile**. On the spending side, we consider two stabilizers working through transfers. The first, and most studied, is unemployment benefits, which greatly increase in every recession as the number of unemployed goes up. **The second are safety-net programs, providing minimum support to poor households. Its main three components are food stamps, cash assistance to the very poor, and transfers to to the disabled. Most of the recipients of these three programs are out of the labor force, and their numbers increase during recessions**.

#### NCPERS 16

NCPERS. " Economic Volatility: Hidden Societal Cost of Prevailing Approaches to Pension Reforms." Ncpers.org. 16 May 2016. Web. 25 Jan. 2018. <<http://www.ncpers.org/files/Economic%20Volatility%20May%202016.pdf>>

What Is Economic Volatility? **Economic Volatility refers to wild swings sometimes referred to as a “roller coaster” in the financial system and economy.8 It’s an undesirable state for a developed economy as it adversely disrupts the lives of many people**. On the contrary, economic stability refers to the financial and economic system of a nation that displays only minor fluctuations in output growth. **Economic stability is a desirable public policy goal**.

#### Rycroft 17

Robert S. Rycroft. [Robert S. Rycroft, PhD, is professor of economics and chair of the economics department at the University of Mary Washington, Fredericksburg, VA..] "The American Middle Class: An Economic Encyclopedia of Progress and Poverty [2 volumes]." Google Books. 2017. Web. 24 Jan. 2018. <<https://books.google.com/books/about/The_American_Middle_Class_An_Economic_En.html?id=TLGzDgAAQBAJ>>

Business cycles are extremely costly, not just in terms of lower income and higher unemployment but in terms of disrupted lives as measured by higher suicide and homicide rates, higher poverty levels, lower birth rates, lower educational attainment, and higher divorce rates. **As a result, recessions have economic, social, and personal consequences that persist for a very long time. Business cycles also have a disproportionately negative impact on the most vulnerable groups in American society - minorities, the poor, and less educated. As a result, recessions typically worsen economic inequality. Households that are in the middle and lower end of the income distribution are most vulnerable to recession**s for many reasons. First, **they have lower wealth and fewer financial resources to fall back in the face of falling incomes. As a result, poorer households are forced to reduce their overall standards of living most sharply during a recession. In addition, lower income households rely more heavily on wages as opposed to earning returns from their wealth, leaving them more vulnerable to layoffs and the longer spells of unemployment associated with economic contractions.** Finally, unemployment rises most sharply among less-skilled, blue collar jobs in the manufacturing sector (where activity is strongly cyclical) than it does in higher skilled, white-collar jobs in the service industry (which behaves less cyclically).

#### Miller 14

Stephen M. Miller. "The effect of growth volatility on income inequality." University of Nevada, Las Vegas Tkuir.lib.tku.edu.tw. 2014. Web. 24 Jan. 2018. <<http://tkuir.lib.tku.edu.tw:8080/dspace/bitstream/987654321/99604/2/%E5%85%A8%E6%96%87.pdf>>

Before discussing our primary PMG findings, we examine whether a long-run relationship (dynamic stability) exists among inequality, volatility, and other covariates. As Loayza and Ranciére (2006, p. 1059) note, it requires a negative coefficient on the error-correction term (i.e., λi = −(1 − ϕi)) between 0 and −2 (i.e., λi lies within the unit circle). We support this condition, as the error-correction coeffi- cients ∅i are negative and significant at the 1-percent level, with or without the economic development variables. The long-run equilibrium relationship implies meaningful long-run estimates. The estimated long-run effect of growth volatility (adg) on income inequality (top10) equals 0.1659 and 0.1450 in regressions (1) and (2), respectively. Both are positive and significant at the 1-percent level, indicating that larger growth volatility affects the distribution of income in an adverse way and produces higher income inequality. We also consider the magnitude of these two effects. That is, a 1-percent increase in volatility leads to a 1.52 and 1.33% increase in inequality.15 Rather than examining the volatility-growth or the inequality growth linkages, a recent strand of literature considers a third possible **connection between the level of growth volatility and the extent of income inequality.** Current theories reveal at least three channels that can explain how growth volatility affects the distribution of income. First, Caroli and García-Peñalosa (2002) consider **an economy where random shocks affect output. Therefore, laborers' marginal products and their wages fluctuate over time. As such, risk-averse laborers willingly accept a decrease in their average earnings in exchange for a constant wage, offered by risk-neutral entrepreneurs. Thus, the more volatile the output, the greater the risk premium the laborers willingly forego, and the larger the share of income seized by the entrepreneurs. As a result, more volatile economies probably associate with worsened income distribution.** This is called the wage setting mechanism.

#### Irons 9

John Irons. "Economic scarring: The long-term impacts of the recession." Economic Policy Institute. 2009. Web. 25 Jan. 2018. <<http://www.epi.org/publication/bp243/>>

**In each of these cases, an economic recession can lead to “scarring”—that is, long-lasting damage to individuals’ economic situations and the economy more broadly**. This report examines some of the evidence demonstrating the long-run consequences of recessions. **There is also substantial evidence that economic outcomes are passed across generations. As such, economic hardships for parents will mean more economic hurdles for their children. While it is often said that deficits can cause transfers of wealth from future generations of taxpayers to the present, this cost must also be compared with the economic consequences of recessions that are also passed to future generations**. A recession, therefore, should not be thought of as a one-time event that stresses individuals and families for a couple of years. Rather, **economic downturns will impact the future prospects of all family members, including children**, and will have consequences for years to come.

#### Children’s Defense Fund 15

Children's Defense Fund. "Ending Child Poverty Now." Childrensdefense.org. 20 Feb. 2015. Web. 25 Jan. 2018. <<http://www.childrensdefense.org/newsroom/mediaresources/ending-child-poverty-now.pdf>>

**In one study, people who experienced poverty at any point during childhood were more than three times as likely to be poor at age 30 as those who were never poor as children. 13 The longer a child was poor, the greater the risk of adult poverty According to one study, the lost productivity and extra health and crime costs stemming from child poverty add up to roughly half a trillion dollars a year, or 3.8 percent of GDP**. 14 **Another study found eliminating child poverty between the prenatal years and age 5 would increase lifetime earnings between $53,000 and $100,000 per child, for a total lifetime benefit of $20 to $36 billion for all babies born in a given year**. 15 And we can never measure the countless innovations and discoveries that did not occur because children’s potentials were stunted by poverty.