#### Resolved: The United States should abolish the capital gains tax

# A2 Aff

## A2 Unfair

### A2 Would be Taxed as Income

#### TURN: This isn’t an action that the United States should take. David Block of the Tax Foundation 12 gives three reasons for this:

#### Inflation: the tax is not adjusted for inflation, so any appreciation of assets is taxed at the nominal instead of the real value. This means investors must pay tax not only on the real return but also on the inflation created by the Federal Reserve.

#### Double Taxation: Taxing capital gains the same way as income would be double taxation because income is taxed as wages, then invested, then taxed as wages again when people cash out their assets. This is one of the major reasons the capital gains rate is lower right now.

#### Finally, a capital gains tax, like nearly all of the federal tax code, is a tax on future consumption. Future personal consumption, in the form of savings, is taxed, while present consumption is not. By favoring present over future consumption, savings are discouraged, which decreases future available capital and lowers long term growth.

#### Alltogether, Block concludes that this lower rate of capital gains has actually INCREASED the revenue that the government has brought in because more capital investments are made this way.

#### Turn: Forbes writes that although rich investors get taxed more, they end up demanding a higher amount of capital gains from places they work for. Unfortunately, they further that places such as charities, universities, and pension plans would take a hit as these places rely on investors. This decreases funding for institutions that we needs.

[David Block, 6-27-2012. "Why Capital Gains are taxed at a Lower Rate." Tax Foundation. https://taxfoundation.org/why-capital-gains-are-taxed-lower-rate/] //BH

The justification for a lower tax rate on capital gains relative to ordinary income is threefold: it is not indexed for inflation, it is a double tax, and it encourages present consumption over future consumption. **First, the tax is not adjusted for inflation, so any appreciation of assets is taxed at the nominal instead of the real value. This means investors must pay tax not only on the real return but also on the inflation created by the Federal Reserve. Second, the capital gains tax is merely part of a long line of federal taxation of the same dollar of income. Wages are first taxed by payroll and personal income taxes, then again by the corporate income tax if one chooses to invest in corporate equities, and then again when those investments pay off in the form of dividends and capital gains.** This puts corporations at a disadvantage relative to pass through business entities, whose owners pay personal income tax on distributed profits, instead of taxes on corporate income, capital gains, and dividends. One way corporations mitigate this excessive taxation is through debt rather than equity financing, since interest is deductible. This creates perverse incentives to over leverage, contributing to the boom and bust cycle. **Finally, a capital gains tax, like nearly all of the federal tax code, is a tax on future consumption. Future personal consumption, in the form of savings, is taxed, while present consumption is not. By favoring present over future consumption, savings are discouraged, which decreases future available capital and lowers long term growth. Not only has a low capital gains tax rate worked to encourage savings and increase economic growth, a low capital gains rate has historically raised more in tax revenue. At a 2010 talk at the Cato Institute Dr. Daniel J. Mitchell and Dr. Richard W. Rahn argued that the government has actually raised more revenue with a lower long term capital gains tax rate than a higher rate.** For example, in 2007 the IRS raised $122 billion with a 15% tax rate as opposed to $7.8 billion in 1977 ($26.7 billion in 2007 dollars) with a 40% tax rate. In fact, when President Bush signed into law a cut in the top rate from 20% to 15%, revenue increased from $51.3 billion in 2003 to $137.1 billion in 2007 (although it fell significantly after the 2008 financial crisis, understandably). Attempting to use the tax code to address income inequality will likely disappoint those who seek to attack the lower tax rate on high net worth individuals caused by a lower capital gains and dividends rate. Inequalities caused by globalization and differing education levels will not be remedied by destroying future investment; to the contrary those most likely to be hurt the most by lower economic growth are those with lower incomes.

Ryan Ellis, 9/4/15, “Carried Interest Capital Gains As Ordinary Income Is A Very Bad Idea”, Forbes, <https://www.forbes.com/forbes/welcome/?toURL=https://www.forbes.com/sites/ryanellis/2015/09/04/taxing-carried-interest-capital-gains-as-ordinary-income-is-a-very-bad-idea/2/&refURL=https://www.google.com/&referrer=https://www.google.com/#197ac2af4740> //BB

It's demagoguery and sophistry to argue otherwise. Taxing Carried Interest As Ordinary Income Won't Soak the Rich Imagine yourself as one of these expert investors. Part of your earnings is that you get to keep twenty percent of any capital gains you can produce, subject to a tax rate of 23.8 percent. You walk away, in other words, with $7620 for every $10,000 in your share of the gains (I'm ignoring state taxes here for simplicity). Congress changes the law so that your capital gains tax rate rises from 23.8 percent to 43.4 percent (including the Medicare payroll tax). You want to walk away with the same money after-tax as before. What do you do? Simple. You negotiate to get a bigger share of the capital gain so that you still make the same money on an after tax basis. Instead of getting twenty percent of the capital gain as your carry, you might get thirty or thirty-five percent. Whatever it takes after you run the numbers (being pretty good at that as an expert investor). Where does that increased share of the capital gain come from? Your limited partners, of course. More money for you means less money for the universities, charities, and pension plans. Instead of keeping eighty percent of the capital gains, they might be left with only seventy or sixty-five percent. They will still take it, since they need your expert advice and you're not about to take a pay cut after cash. But those sectors never get made whole. If the goal is to hurt "hedge fund guys," mission not accomplished. All that was ultimately done was to hurt pension plans, colleges, and charities. That almost certainly will trickle down to middle class families sending their kids to school, or drawing a traditional pension, or benefiting from a charitable endeavor. It goes without saying that small firms looking for investors will also take a hit.

### A2 Double Taxation

#### 1. Mitigate, their strength of link. Burman 11 of the NBER explains that capital gains taxation applies to more assets than just corporate stocks.

Cards:

Leonard Burman (is the Daniel Patrick Moynihan Professor of Public Affairs at the Maxwell School of Syracuse University, an affiliated scholar at the Urban Institute, and research associate at the National Bureau of Economic Research and senior research associate at Syracuse University’s Center for Policy Research. Previously, he was the director and co-founder of the Tax Policy Center, a joint project of the Urban Institute and the Brookings Institution. He has held high-level positions in both the executive and legislative branches, serving as Deputy Assistant Secretary for Tax Analysis at the Treasury from 1998 to 2000, and as Senior Analyst at the Congressional Budget Office. He is president of the National Tax Association. Burman is the author of The Labyrinth of Capital Gains Tax Policy: A Guide for the Perplexed, and co-editor of Taxing Capital Income and Using Taxes to Reform Health Insurance, and author of numerous articles, studies, and reports. Recent research has examined US federal budget dynamics, the individual alternative minimum tax, the changing role of taxation in social policy, and tax incentives for savings, retirement, and health insurance. He holds a Ph.D. from the University of Minnesota and a B.A. from Wesleyan University), Washington Post, September 2011, ["Do capital gains taxes help or hurt our economy?," https://live.washingtonpost.com/capital-gains-tax-rates.html, DOA: 1-15-2018] // ATA

Q: Double taxation? Capital gains involves double taxation. Do you believe there is a fairer way to tax capital gains? A: Leonard Burman There is double taxation to the extent that corporate income has already been taxed. However, lots of corporations manage to avoid much of their corporate tax and many capital gains are on assets other than corporate stock. The best way to deal with this would be to "integrate" the corporate and individual income taxes. Basically, shareholders would pay tax on income as it accrues, rather than when they sell an asset. Alternatively, they could get a tax credit for the taxes already paid by companies.

### A2 Easily Exploited

### A2 Harms Artists/Art Collectors

### A2 Harms Middle Class

#### Bloomberg writes that the vast majority of wealth held by the middle class is held in homes and retirement accounts. They further that capital gains don’t apply to retirement accounts and they only apply to houses that cost 250,000 dollars meaning the impact is basically to the upper middle class.

#### The Capital Gains Tax doesn’t significantly affect the middle class. Travis Brown explains in May 2015 that the wealthy are more likely to own capital assets. Jared Bernstein quantifies this in March 2017, reporting that 80% of the value of the market has been held by the top 10%.

#### That’s why you can turn this argument, because abolishing the capital gains tax only unfairly benefits the rich, thus their world doesn’t solve the issue of inequality, but only exacerbates it.

#### Social security, medicare, low-income programs, infrastructure, and education are all programs that do actually affect the middle class. That’s why you can turn this argument AGAIN, because we solve better for all these by increasing government revenue. John Louis reports in October 2017 that tax cuts would reduce national saving and result in cuts to the very government services that benefit the middle class.

Brown, Travis H. “The Capital Gains Tax and Middle - Class America: The Long and Short (Term) of It.” How Money Walks, 18 May 2015, www.howmoneywalks.com/the - capital - gains - tax - and - middle - class - america - the - long - and - short - term - of - it/. “Proponents of a high capital gains tax rate, however, argue that higher income households are more likely to own capital assets, and the act of instituting a low long - term capital gain tax rate offers the wealthy a preferential tax rate on their income that is lower than the tax rate most of the middle class enjoy s. Proponents also suggest that the correlation between low capital gains tax rates and economic recovery does not necessarily suggest causality and may show a negative relationship.”

Bernstein, Jared. “Perspective | Yes, Stocks Are up. But 80 Percent of the Value Is Held by the Richest 10 Percent.” The Washington Post, WP Company, 2 Mar. 2017, www.washingtonpost.com/posteverything/wp/2017/03/02/perspective-on-the-stock-market-rally-80-of-stock-value-held-by-top-10/?utm\_term=.3ee2cab4c7b9.“The figures below show that, since the late 1980s, about 80 percent of the value of the market has been held by the top 10 percent.

Louis, John.” Center on Budget and Policy Priorities, 23 Oct. 2017, www.cbpp.org/research/federal-tax/multinationals-trapped-foreign-profits-not-key-to-jobs-and-growth.“Huge tax cuts for the wealthy and corporations could actually hurt growth and the majority of Americans.If they aren’t paid for, the increased deficits would reduce national saving, meaning less capital would be available for investment in the economy and interest rates could rise —and wages could fall. Further, deficit-financed tax cuts would eventually have to be paid for through increases in other taxes or cuts to government services. Social Security, Medicare, and low-income programs would be especially vulnerable, and the fiscal squeeze would mean fewer resources for additional needed investments in areas like infrastructure and education that could help the economy, jobs, and wages over time.Given these eventual financing costs, unpaid-for tax cuts for the wealthy and corporations would likely leave most Americans worse off in the long run.”

Ben Steverman, 9/12/17, “Why American Workers Pay Twice as Much in Taxes as Wealthy Investors”, Bloomberg, <https://www.bloomberg.com/news/features/2017-09-12/why-american-workers-pay-twice-as-much-in-taxes-as-wealthy-investors> //BB

Even if you believe low investment taxes can spur economic growth, you might question whether lowering taxes further will have much of an effect these days. The vast majority of wealth held by the middle class is held in homes and retirement accounts. Tapping a retirement account never triggers a capital gains tax, and selling a home only does if the gain is more than $250,000 for a single person and $500,000 for a couple. If you have less than $38,000 in investment income, you already pay a tax rate of zero. Eliminating the NIIT or lowering other investment taxes is then, at its core, about stimulating the economy by getting the wealthy to save and invest more. But the rich are already saving—a lot. Saez and his Berkeley colleague Gabriel Zucman calculate the top 1 percent of America by wealth have consistently saved more than 30 percent of their income since at least the 1970s.

### A2 Unfair to Firms

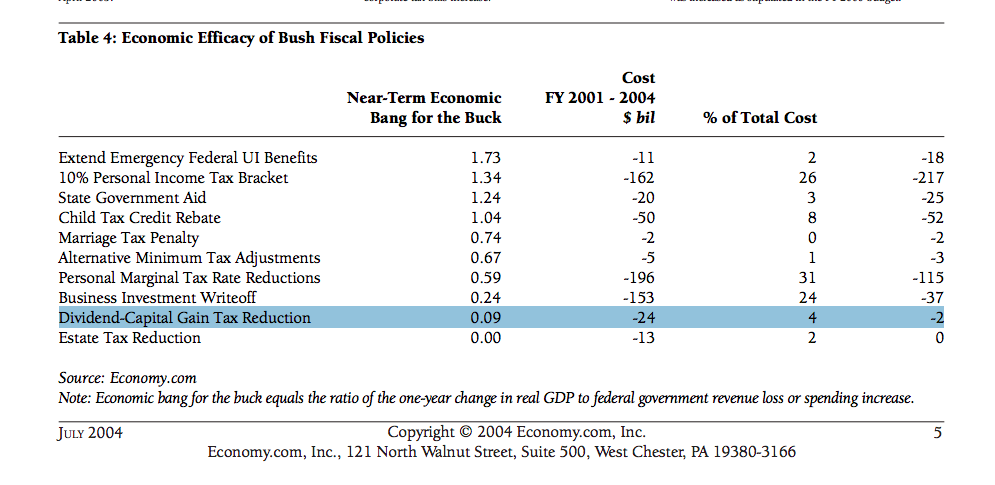
## A2 US Econ

### A2 Econ Improvement General

#### Bahera Maleki finds that increasing the capital gains tax rate decreases overall risk associated with investing by assuring investors are committed to staying invested hence increasing the tax leads to an increases capital formation by 3% and an increase total economic growth by 1.3%

#### Mitigate, Friedman 06 finds that cutting the capital gains tax is ineffective when considering the lost revue. He quantifies that for every dollar lost in revenue, there will only be a dime funneled back into the economy.

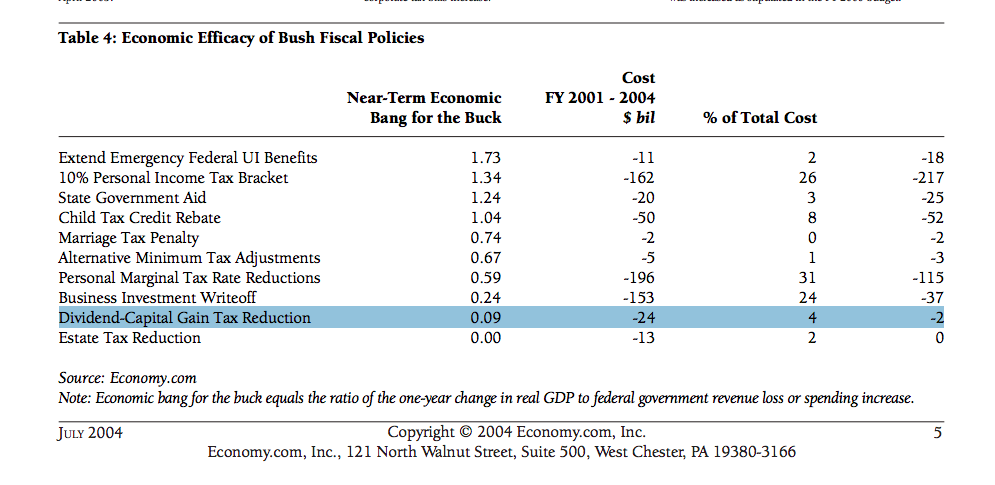
Dr. Zandi (earned his B.S. from the Wharton School at the University of Pennsylvania and his PhD at the University of Pennsylvania), The Dismal Scientist, July 2004, ["Assessing President Bushís Fiscal Policies," http://www.uvm.edu/~awoolf/classes/fall2004/election/Assessing\_President\_Bush\_Economic\_Policies.pdf, DOA: 1-18-2018] // ATA



Joel Friedman, Center on Budget and Policy Priorities, 3-27-2006, ["The Capital Gains and Dividend Tax Cuts and The Economy," https://www.cbpp.org/research/the-capital-gains-and-dividend-tax-cuts-and-the-economy, DOA: 1-18-2018] // ATA

A Congressional Budget Office study found that the same was true of capital gains tax cuts: “in general, little fiscal stimulus would be provided by cutting capital gains tax rates.”[11] This is the case in part because the initial benefits of capital gains tax cuts (and of dividend tax cuts as well) are directed in large part toward investments that have already taken place. That is, rather than spurring new investment, the bulk of the initial benefits of the tax cuts go toward rewarding investment decisions that have already been made. Simulations of the effects of dividend and capital gains tax cuts have found they are highly ineffective as economic stimulus. An Economy.com study found that reducing the taxation of dividends and capital gains would generate less than a dime of stimulus for each dollar of lost revenue; a Goldman Sachs analysis estimated the dividend tax cut would provide eight cents of stimulus for each dollar of cost.[12] (By comparison, Economy.com estimated that more efficient stimulus proposals such as extending federal unemployment benefits would yield more than a dollar of stimulus per dollar of revenue loss.) Evidence available so far confirms the simulation results and economic theory: the dividend and capital gains tax cuts have had little short-run impact. For instance, supporters of the tax cuts frequently claim that the tax cuts influenced the economy in the short run by boosting the stock market. But a study by three Federal Reserve economists finds that the tax cuts were not the reason the stock market rose in 2003.[13] The study compared the performance of taxable stocks in the United States to the performance of European stocks and Real Estate Investment Trusts; it thus was able to separate out correlation — the market’s rise did coincide with the tax cuts — from causation:  the tax cuts were not the cause of the market’s rise.  (The Treasury report neglected to cite this Federal Reserve study.)

Dr. Zandi (earned his B.S. from the Wharton School at the University of Pennsylvania and his PhD at the University of Pennsylvania), The Dismal Scientist, July 2004, ["Assessing President Bushís Fiscal Policies," http://www.uvm.edu/~awoolf/classes/fall2004/election/Assessing\_President\_Bush\_Economic\_Policies.pdf, DOA: 1-18-2018] // ATA



**Bahare Maleki**, PhD Candidate of Isfahan (Khorasgan) Branch, Islamic Azad University, Isfahan, Iran, 2016, ["The Effect of Capital Gain Tax on Capital Formation, Financial Development and Economic Growth, “Case Study of Selected Europe Union Countries”," http://jgpt.co.in/index.php/jgpt/article/view/603/440, DOA: 1-15-2018] // ZWS

This study aims at investigating the effects of capital tax on the relationship between capital formation, financial development and economic growth. So, in this study, the effect of capital gain tax on capital formation, financial development and economic growth in the years 1970-2014, using simultaneous equations system and GMM method has been investigated in panel format in Denmark, Stevia, Italy, Netherlands, Swede, and Iran. ***The results show that financial development growth rate does not affect economic growth rate but economic growth rate*** with 2 lags **decreases the financial development growth rate about 0.49 units**. Capital formation growth rate increases economic growth rate about 0.42 units and economic growth rate increases capital formation growth rate about 2.4 units. Financial development growth rate with 1 lag, does not affect physical capital formation growth rate but physical capital formation growth rate decreases financial development growth rate about 0.29. Also**, the findings show that the increase of capital gain** tax growth rate with 1 lag, **increases capital formation growth rate about 0.03 unit.** Also capital gain tax growth with 1 lag, decreases financial development growth about 0.009 **unit and increases economic growth rate about 0.013**.Also, the amount of J statistic is equal to 23.78 and the amount of chi statistics is equal to 0.07 which show that the entered tool variables are valid in the system of simultaneous equations and all the patterns are estimated correctly.

**Len Burman**, Forbes, 3-15-2012, ["Capital Gains Tax Rates and Economic Growth (or not)," https://www.forbes.com/sites/leonardburman/2012/03/15/capital-gains-tax-rates-and-economic-growth-or-not/, DOA: 1-18-2018] // ZWS

If you read the editorial page of the Wall Street Journal (or surf around the nether regions of Forbes.com), you may come to the conclusion that no aspect of tax policy is more important for economic growth than the way we tax capital gains. You'd be wrong. The chart displayed above shows top tax rates on long-term capital gains and economic growth (measured as the percentage change in real GDP) from 1950 to 2011. **If low capital gains tax rates catalyzed economic growth, you'd expect to see a negative relationship--high gains rates, low growth, and vice versa--but there is no apparent relationship between the two time series. The correlation is 0.12, the wrong sign and not statistically different from zero**. I've tried lags up to five years and also looking at moving averages of the tax rates and growth. There is never a statistically significant relationship. **Does this prove that capital gains taxes are unrelated to economic growth? Of course not. Many other things have changed at the same time as gains rates and many other factors affect economic growth. But the graph should dispel the silver bullet theory of capital gains taxes. Cutting capital gains taxes will not turbocharge the economy and raising them would not usher in a depression.** **Low capital gains tax rates do accomplish one thing: they create lots of work for lawyers, accountants, and financial geniuses because there is a huge reward to making ordinary income (taxed at rates up to 35%) look like capital gains (top rate of 15%).** **The tax shelters that these geniuses invent are economically inefficient, and the geniuses themselves might do productive work were the tax shelter racket not so profitable. And the revenue lost to the capital gains tax loophole adds to the deficit, which also hurts the economy**. Thus, it's no surprise that there's no obvious relationship between capital gains tax rates and economic growth. Indeed, the low rates on gains might do more harm than good.

**Chuck Marr**, Center on Budget and Policy Priorities, 9-19-2012, ["Raising Today’s Low Capital Gains Tax Rates Could Promote Economic Efficiency and Fairness, While Helping Reduce Deficits," https://www.cbpp.org/research/raising-todays-low-capital-gains-tax-rates-could-promote-economic-efficiency-and-fairness, DOA: 1-20-2018] // ZWS

**There is no evidence that tax breaks for capital gains contribute to economic growth at all, let alone by enough to outweigh the costs of these tax breaks**. University of Michigan tax economist Joel Slemrod, another of the **nation’s leading tax policy experts**, has **found that “there is no evidence that links aggregate economic performance to capital gains tax rates.”****[[6]](https://www.cbpp.org/research/raising-todays-low-capital-gains-tax-rates-could-promote-economic-efficiency-and-fairness" \l "_ftn6" \o ")  Similarly, TPC has found no statistically significant correlation between capital gains rates and real GDP growth during the last 50 yea**rs.[[7]](https://www.cbpp.org/research/raising-todays-low-capital-gains-tax-rates-could-promote-economic-efficiency-and-fairness" \l "_ftn7" \o ")  In addition, a new CRS report analyzing capital gains tax rates and economic growth **finds that “analysis of such data suggests the reduction in the top [capital gains] tax rates have had little association with saving, investment, or productivity growth**

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William G. Gale, Brookings Institution and Tax Policy Center, February 2016, Effects of Income Tax Changes on Economic Growth //JN

http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/413223-Effects-of-Income-Tax-Changes-on-Economic-Growth.pdf Hungerford (2012) plots the annual real per-capita GDP growth rate against the top marginal income tax rate and the top capital gains tax rate from 1945 to 2010 (see Figure 2), a period that spanned wide variation in the top rate. **The fitted values suggest that higher tax rates are not associated with higher or lower real per-capita GDP growth rates to any significant degree**. In multivariate regression analysis, neither the top income tax rate nor the top capital gains tax rate has a statistically significant association with the real GDP growth rate. An obvious caveat to this result is that the share of households facing the top rate is generally quite small. However, historically, the highest several marginal tax rates were moved together, so that changes in the top rate per se proxy for changes in a broader set of higher tax rates that do affect many taxpayers. To be clear, many factors affect economic growth rates. Nonetheless, **if taxes were as crucial to long-term growth as is sometimes claimed, the large historical increases in tax burdens and marginal tax rates that occurred between World War I and the end of World War II, as well as the historic reduction in top marginal income tax rates that has occurred since then, might be expected to affect the aggregate growth rate of the economy. Cross-country studies generally find very small long-term effects of taxes on growth** among developed countries (Slemrod 1995).8 Countries vary, of course, not just in their level of revenues and spending, but also in the composition of taxes and outlays. Nevertheless, a large literature has developed aiming to compare tax effects across countries. Evidence shows that pooling data from developed and developing countries is inappropriate because the growth processes differ (Garrison and Lee 1992; Grier and Tullock 1989) and that taxes have little or no effect on economic growth in developed countries. Mendoza et al. (1997) and Garrison and Lee (1992) find no tax effects on growth in developed countries. Padovano and Galli (2001) find that a 10 percentage point reduction in marginal tax rates raises the growth rate by 0.11 percentage points in OECD countries. Engen and Skinner (1992) find significant effects of taxes on growth in a sample of 107 countries, but the tax effects are tiny and insignificant when estimated only on developed countries. Piketty, Saez, and Stantcheva (2014) look at evidence from 18 OECD countries on tax rates and economic growth for the 1960-2010 time period. Figure 3, taken from their study, conveys the idea that there is little correlation between growth in real GDP per capita and the drop in the top marginal rate for the 1960-2010. Their regression analysis confirms this result. Thus, a reasonable summary from the simple correlations of economic growth and income tax policy over long periods is **that the presence of strong tax effects on economic growth is hard to reconcile with observations from the U.S. historical record and international comparisons**.9

### A2 Increases Investment

#### Burman and Gale of the Brookings Institute 97 write that rather than increasing investment, reducing the capital gains tax would end up increasing tax sheltering. This is ultimately really bad because furthering tax sheltering exploits the lower class and ends up increasing income inequality in the United States.

Matthew Kinni, Spring Quarter 2011, “The Preferential Tax Rate on Capital Gains and its Impact on Income Inequality”, Cal Poly, <https://www.cob.calpoly.edu/undergrad/wp-content/uploads/sites/3/2017/10/Top-Senior-Project-Sp2011-Kinni.pdf> //BB

The Congressional Research Service report entitled The Economic Effects of Capital Gains, which I’ve sourced other times throughout this paper, explains it like this: “the traditional economic theory of saving, the life-cycle model, assumes that individuals make rational, far-sighted decisions. The preponderance of empirical evidence, however, does not support the life-cycle model” (Hungerford, 2010)14. In other words, while it might be rational for people to increase their capital investments as a result of a lower capital gains tax law, people are for the most part irrational. Perhaps the most concise digestion of all the behavioral research in this area is this: Over the years, a variety of studies have estimated different long-run or permanent realizations elastcitities. The general trend has been to estimate elasticities closer to zero than to 1.0 [think of the Burman and Randolph study I mentioned before that calculated -.18] as data and estimation methods improve, though there are exceptions… While the effect of changes in the capital gains tax rate continue to be debated and researched, the bulk of the evidence suggests that reducing the capital gains tax rate reduces tax revenues

[Leonard E. Burman and William G. Gale, 9-1-1997. "The Case Against the Capital Gains Tax Cuts." Brookings Institute. https://www.brookings.edu/opinions/the-case-against-the-capital-gains-tax-cuts/] //BB

They also drain revenues from the Treasury. Advocates like to assert that capital gains tax revenue rises when capital gains tax rates are cut. The result, even if it were true, is misleading. The point of shelters is precisely to shift income from highly taxed to lowly taxed forms. For example, when lower taxes on capital gains cause an executive to shelter income by switching the form of compensation from wages to stock options (which generate capital gains), revenues from capital gains taxes increase, but tax revenues from wages fall by even more, so overall revenues fall. Capital gains tax cuts would provide a windfall for the wealthy.

### A2 Start Up Investments

#### Alice Rivlin 11’ explains 2 problems with this.

#### The capital Gains tax is a very small portion of the cost of acquiring capital, the interest rate of loaning that capital is a much bigger barrier

#### A Lower Rate tax rate on capital gains directs more capital into investments that are more likely to throw off income as capital gains, also known as tax shelters, rather than other uses that might have higher rates of returns.

#### Carolin Bock 17’ find that when capital gains tax rates are higher investors are more selective and do more research, so they are able to identity successful companies during their initial due diligence proves. She concludes that a higher tax burden increases the likely hood of a startup that gets funding being successful.

#### In analysis spanning 24 years taking data from all 50 states Grayden Shand 18’ found that entrepreneurs tend to sacrifice income in order to improve the odds of their business working leading him to find that on average entrepreneurs make 30% less then non self employed workers. This gap in wages is bad as he finds that because of this pay discrepancy a 1%-point increase in the amount of entrepreneurs increases income inequality by 3.5%, leading him to conclude that policy decisions aimed to increase the amount of entrepreneurs decrease economic growth and increase income inequality.

**ALICE M. RIVLIN** , 11-16-2011, ["The Case for Eliminating the Preferential Treatment of Capital Gains," https://bipartisanpolicy.org/blog/case-eliminating-preferential-treatment-capital-gains/, DOA: 1-22-2018] // ZWS

**Experience has demonstrated that the 1986 Act was conducive not only to revenue growth, but also to economic growth**. **By 1996, under essentially the same , capital gains tax treatment as in the 1986 Act, the economy had recovered from the 1990-1991 recession, economic growth was robust, and a full-fledged investment boom was underway**. Business investment in equipment, which had fallen to 6.9 percent of the GDP in the 1990-1991 recession, was up to 8.3 percent in 1996. Real GDP grew by an average of 3.3 percent over 1992-1996, and 3.7 percent in 1996. This result follows from basic economics. **Economists know that the income tax on capital gains is a very small part of the cost of capital. Far greater is the cost of funds – the interest rate itself**. **The main mission of the Joint Select Committee – deficit reduction – is far more important for capital investment than anything that might be done to protect the tax preference for capital gains. Capital gains tax preferences are also much more a bonus for the already-wealthy portfolio investor than an incentive for the budding entrepreneur**. **The capital gains tax preference is irrelevant for the many entrepreneurs who hope to build and run successful businesses** and earn salaries from them. **Even for such entrepreneurs who look forward eventually to selling their businesses upon retirement, the capital gains tax is years away, and its impact on their ultimate outcomes will be overwhelmed by the degree of their success in running their businesses**. The much greater part of capital gains realized by individuals is on sales of corporate stock by portfolio investors, rather than sales of businesses owned by entrepreneurs. In the latest (2007) data released by the Internal Revenue Service, **tax-favored long-term capital gain or loss transactions on corporate stock accounted for 53 percent of all transactions, and 26 percent of all net capital gain. In stark contrast, capital gain or loss transactions on partnership, S corporation and estate or trust interests accounted for only 2 percent of all transactions, and less than 6 percent of all net capital gain** – only about one-fifth the amount of sales of shares of established corporations. Net ordinary income from businesses and professions was nearly seven times the amount of capital gains from sales of businesses – and that does not include any of the entrepreneurial income that is reported as simple salary income. And of course, **a tax preference afforded to all capital gains steers scarce resources also to all other kinds of investments – including precious metals, collectibles, U.S. government bonds, and so on – instead of to the rewards to true entrepreneurs, much of which flow in the form of ordinary income**. As noted earlier, **a lower tax rate for capital gains directs more capital into investments that are more likely to throw off income as capital gains, at the expense of some other uses that might actually have higher rates of return**. **Capital gains treatment historically has been one of the key ingredients in the classic tax shelter**, which wastes society’s scarce resources on investments that generate tax losses to offset other income, rather than profits earned in the free marketplace. And misleadingly, because the eventual cash receipts from liquidating tax shelters are reported as realized capital gains, this sheer economic waste makes the tax receipts from capital gains look larger. The Task Force proposal includes a substantial reduction in the corporate income tax rate, to 28 percent. That makes the corporate rate approximately equal to the average across all developed nations. Because firms usually want to locate in the markets in which they sell, and because the United States is the largest market in the world, this competitive corporate tax rate should encourage the location of more production activity in the United States, with resulting benefits for employment. And the reduction of the tax rate for corporate-source income will provide a benefit to owners of corporate stock who would lose the capital gains preference.

**Grayden Shand**, SpringerLink, 1-6-2018, ["An empirical analysis of the relationship between entrepreneurship and income inequality," https://link.springer.com/article/10.1007/s11187-017-9984-1, DOA: 1-15-2018] // ZWS

In particular, Åstebro et al. ([2011](https://link.springer.com/article/10.1007/s11187-017-9984-1)) propose a model of labor market frictions in **which entrepreneurs are skilled in a variety of activities and there is complimentarity between their skills, finding that average wages under self-employment are lower than mean wages under paid employment**. Hamilton ([2000](https://link.springer.com/article/10.1007/s11187-017-9984-1)) examines differences in earnings between self-employment and paid employment**, reporting that a majority of entrepreneurs enter and remain in business even though their initial earnings, as well as their earnings growth are lower than earnings of individuals in paid employment. He estimates an earnings differential of 35% for self-employed individuals**, further arguing that this differential potentially underestimates the true differential as fringe benefits are generally not included in wages under paid employment. Using data for Canada, Lin et al. ([2000](https://link.springer.com/article/10.1007/s11187-017-9984-1)) **find that self-employed earnings average approximately 8 cents to a dollar less than those of wage and salary employees**. Similar findings have been reported by, among others, Mathias et al. ([2017](https://link.springer.com/article/10.1007/s11187-017-9984-1)), and Åstebro and Chen ([2014](https://link.springer.com/article/10.1007/s11187-017-9984-1)).

**Grayden Shand**, SpringerLink, 1-6-2018, ["An empirical analysis of the relationship between entrepreneurship and income inequality," https://link.springer.com/article/10.1007/s11187-017-9984-1, DOA: 1-15-2018] // ZWS

Turning now to the estimated coefficients, several observations are evident from the table. First, regardless of the measure of inequality, the estimate of the coefficient on the self-employment rate is always positive and statistically significant at conventional levels of significance. When the Gini index is used as the measure of inequality, the estimated coefficient on the self-employment rate is 0.035, suggesting that **a one percentage point increase in the self-employment rate is associated with a 0.035 point increase in income inequality** (Gini index).

**Grayden Shand**, SpringerLink, 1-6-2018, ["An empirical analysis of the relationship between entrepreneurship and income inequality," https://link.springer.com/article/10.1007/s11187-017-9984-1, DOA: 1-15-2018] // ZWS

Over the last four decades, the USA has experienced a simultaneous increase in income inequality and entrepreneurship. This paper explores whether there is, in fact, a relationship between entrepreneurship and income inequality, or whether this correlation is merely an empirical coincidence. **The analysis uses annual data on all 50 US states and DC from 1989 to 2013. To ensure robustness of our results, we use four measures of entrepreneurship and nine measures of income inequality**. Methodologically, the paper contributes to the literature by using the system GMM estimator which is more robust to measurement error than cross-sectional models, and also alleviates some of the potential endogeneity biases that arise from the simultaneous determination of entrepreneurship and inequality. The methodology also allows us to control for unobservable time-invariant factors across states that may affect both inequality and entrepreneurship through the inclusion of state fixed effects. As well, year fixed effects are included to account for the possibility of common trends in the variables of interest. Our results provide strong evidence of a positive relationship between entrepreneurship and income inequality. This finding is stable across different measures of entrepreneurship, as well as alternative measures of income inequality. **Given the extensive literature on the growth-retarding impacts of income inequality (see e.g., Aghion et al.** [**1999**](https://link.springer.com/article/10.1007/s11187-017-9984-1)**; Atems** [**2013a**](https://link.springer.com/article/10.1007/s11187-017-9984-1)**,** [**b**](https://link.springer.com/article/10.1007/s11187-017-9984-1)**) our results suggest that policies aimed at encouraging entrepreneurship will not only increase inequality, but may be detrimental to growth**. Yet, the finding that economic growth reduces inequality (Tables [2](https://link.springer.com/article/10.1007/s11187-017-9984-1), [3](https://link.springer.com/article/10.1007/s11187-017-9984-1), [4](https://link.springer.com/article/10.1007/s11187-017-9984-1), and [5](https://link.springer.com/article/10.1007/s11187-017-9984-1)) suggests that perhaps growth-enhancing policies are a more effective way to reduce inequality than policies aimed at encouraging entrepreneurship, per se

**Carolin Bock**, TU Darmstadt, 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ZWS

**Venture capitalists seem to be able to pick the companies to invest in more diligently when tax rates are high**. This finding provides some evidence for the question discussed in the literature of whether **venture capitalists are able to identify potentially more successful companies during their initial due diligence process** (Bertoni et al., 2011; Brander et al., 2002; Dimov & Shepherd, 2005; Dimov et al., 2007; Lerner, 1994). The results are corroborated when we analyze venture capital investments in consecutive funding rounds. Companies have a lower probability of receiving further funding rounds when capital gains taxes are high. **However, if the capital gains tax was high at the time of the first funding, the company has a higher probability of receiving funding in consecutive rounds, again pointing at a selection effect**

#### Less startups but more successful startups,

**Carolin Bock**, TU Darmstadt, 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ZWS

By doing so, **we are able to study the decisions for a sample of 76,852 funding rounds in 32 countries from 2000 to 2012**. Our results support the predictions of the theoretical model that higher capital gains tax rates are associated with fewer startups financed and a lower probability of receiving follow-up funding. **However, the results concerning the effect on the probability of success of start-ups show that a higher tax burden is associated with a higher probability of eventual start-up success.**

### A2 VC Investments

#### (4 responses)

#### 1. Mitigate, Entis ‘13 of New York University explains that only 0.05% of startups are funded by venture capital firms. Affirming doesn’t affect a whole lot.

#### 2. Delink, Feder ‘97 of Temple University explains that most money placed in venture capital funds comes from tax-exempt pension funds, endowments, and foundations – none of which is affected by capital gains taxes.

#### 3. Non-unique, there are better ways to incentivize VC’s. Pethokoukis ‘16 of Northwestern University explains that there are more efficient ways to spur entrepreneurship than abolishing the capital gains tax like tax reform targeting human capital or stock options which is an effective way to spur entrepreneurship without the high fiscal costs of cutting the capital gains tax.

#### 4. Turn the impact. If you buy that affirming grows private equity, it also means exacerbating the industry’s diversity epidemic. Guynn ‘16 of USA Today explains that women, African Americans, and Latinos are significantly underrepresented in venture capital, holding few holding decision making positions. Furthering that because venture capitalists are predominantly white men who, in turn, fund companies started by other men. As a result, women and minorities have been largely left out of one of the world's greatest wealth creation machines.

**5. Leonard Burman 97’ finds that capital gains on new ventures are already taxed at half of the rate of other capital gains and much of the funds come from sources that do not pay capital gains taxes, concluding the Venture Capitalist investment would not be effected by tax cuts.**

#### 6. McDermott ‘12 of INC reports that 75% of venture-capital backed startups fail, and that 95% of venture-capital backed startups don’t reach their projected profits.

#### 7. Carolin Bock 17’ find that when capital gains tax rates are higher venture capitalists are more selective and do more research, so they are able to identity successful companies during their initial due diligence proves. She concludes that a higher tax burden increases the likely hood of a startup that gets funding being successful.

#### 8. Turn, if anything venture capitalism is bad for two reasons:

#### a. Unsustainable Growth- Kanies ‘17 finds that venture capitalist investors push companies towards growth which is unsustainable and leads to failure.

#### b. Selection Bias- Guynn ‘16 of USA Today finds that Women, African Americans and Latinos are significantly underrepresented in venture capital. Brooks ‘14 of Harvard warrants that even looks are a statistically significant factor in who gets funding.

Laura Entis (New York University), Center for Venture Research, US Small Business Accreditation, Angel Research Institute, Angel Capital Education Foundation, Entrepreneur, 11-20-2013, ["Where Startup Funding Really Comes From (Infographic)," https://www.entrepreneur.com/article/230011, DOA: 1-16-2018] // ATA

Prominent VCs and angel investors may dominate the headlines with their big sticker investments, but personal loans and credit – along with investments from friends and family – make up the lion's share of funding for startups in the U.S. According to data compiled by Fundable, only 0.91 percent of startups are funded by angel investors, while a measly 0.05 percent are funded by VCs. In contrast, 57 percent of startups are funded by personal loans and credit, while 38 percent receive funding from family and friends.

Michael Hudson (is a financial analyst and president of the Institute for the Study of Long Term Economic Trends. Hudson has written or edited more than 10 books on the politics of international finance, economic history, and the history of economic thought) & Kris Feder (associate Professor at Bard College in New York), The Jerome Levy Economics Institute of Bard College, 1997, ["Real Estate and the Capital Gains Debate," https://michael-hudson.com/wp-content/uploads/2010/03/97RealEstateCapitalGains\_wp17.pdf, DOA: 1-15-2018] // ATA

Much of the capital gains debate today focuses on the stock market. Business recipients of capital gains are characterized as small innovative firms making initial public offerings (IPOs). In recent years such firms have been responsible for a disproportionate share of new hiring. It is hoped that corporations will be able to raise money to employ more labor and invest in more plant and equipment if buyers of their stocks can sell these securities with less of a tax bite. Stock market gains thus are held to stimulate new direct investment, employment, and output. Typical of the campaign to reduce capital gains taxes is a Wall Street Journal editorial, “Capital Gains: Lift the Burden.” Author W. Kurt Hauser argues that when the capital gains tax rate was increased from 20 percent to 28 percent in 1989, the effect was to deter asset sales, causing a decline in the capital gains to be reaped and taxed. He refers, however, only to stock market gains, and specifically, to equity in small businesses. Citing the example of yacht producers, he suggests that taxing capital gains on stocks issued by these businesses “locks in” capital asset sales, thereby deterring new investment and hiring, and reducing the supply of yachts.16 Others contend that new productive investment is relatively insensitive to capital gains tax rates, arguing, for example, that most of the money placed in venture-capital funds come from tax-exempt pension funds, endowments, and foundations.17 What is missing from the discussion is a sense of proportion as to how capital gains are made. Data that is available from the Department of Commerce, the IRS, and the Federal Reserve Board indicate that roughly two thirds of the economy’s capital gains are taken, not in the stock market much less in new offerings--but in real estate.” The Federal Reserve Board estimates land values at some $4.4 trillion for 1994. Residential structures add $5.9 trillion, and other buildings another $3.1 trillion. This $13.4 trillion of real estate value represents two thirds of the total $20 trillion in overall assets for the United States economy.” Real estate accounts for three-fourths of the economy’s capital consumption allowances. It also is the major collateral for debt, and generates some two-thirds of the interest paid by American businesses. Real estate taxes are the economy’s major wealth tax, although their yield has declined as a proportion of all state and local revenues, from 70 percent in 1930 to about one-fourth today. Capital gains statistics are much harder to come by. One cannot simply measure the increased value of the capital stock, for part of the rise represents investment--production of new capital-iather than appreciation of existing capital and land. The IRS conducts periodic sampling of capital gains based on tax returns, and its Statistics on Income presents various analyses of the shares of total capital gains reported by the economy’s income cohorts, from the richest five percent down. The samples are admittedly asymmetrical, however, and some of the categories overlap. Significantly, for instance, stock market gains include a large component of land and other real estate gains.

James Pethokoukis (was the business editor and economics columnist for U.S. News & World Report from 1997 to 2008. He has written for many publications, including The New York Times, The Financial Times, The Weekly Standard, Commentary, National Review, The Week, USA Today and Investor's Business Daily. In addition, he has appeared as a numerous time guest on MSNBC, Fox News Channel, Fox Business Network, The McLaughlin Group, CNN and Nightly Business Report on PBS. A graduate of Northwestern University and the Medill School of Journalism), AEI, 2-24-2016, ["On capital gains taxes, venture capital, and startups," http://www.aei.org/publication/on-capital-gains-taxes-venture-capital-and-startups/, DOA: 1-16-2018] // ATA

Although this policy was not intentional in the United States, we argue that it has nevertheless developed into one of the most efficient ways to promote entrepreneurship. The reason is that the tax break targets startups receiving VC funding, a small but strategic sector of the economy. The policy lowers the effective taxation of startups that are screened by venture capitalists willing to invest their own funds, without requiring the government to determine which firms are entrepreneurial. Another major benefit is that innovative startups can be given a tax break without the need for broad capital gains tax cuts. It should be noted that innovative startups that can be defined as Schumpeterian entrepreneurs are a tiny percentage of firms and even a small share of new firms. Most new firms are best described as “mom-and-pop” operations without the ambition to grow or innovate (eg, Hurst and Pugsley 2011, Shane 2008 and Henrekson and Sanandaji 2014). It is difficult to ex ante separate innovative startups from non-entrepreneurial self-employment. However, VC-funded firms tend to represent a large segment of truly innovative firms which are screened by skilled professionals. A mere 0.1 to 0.2 percent of all firms in the US receive early- stage financing from specialized venture capitalists (Puri and Zarutskie 2012). Nevertheless, VC funded firms constitute the majority of firms that are sufficiently successful to go public (Kaplan and Lerner, 2010). A tax break that targets human capital in this segment is an effective way to promote innovative entrepreneurship without the high fiscal cost of broad capital gains tax cuts. There is another more subtle reason why lower taxes on employee stock options are preferable to broad tax cuts as a way to promote entrepreneurship: It is not only about the absolute tax rate. Taxes relative to other sectors matter. Entrepreneurial startups are extremely important issue, but a small sector relative to the entire stock of financial and human capital. Entrepreneurial firms compete for talent with other sectors of the economy. Most importantly with large incumbent firm but overpriced with academia, non-entrepreneurial small businesses, non-profit organizations and government. Capital may not be invested at all due to high taxes, but it can be overpriced, invested passively in the stock market rather than in private equity. Broad-based capital gains taxes do not shift capital investments from passive to private equity, unlike tax breaks on stock options and other instruments widely used by the VC sector.

Jessica Guynn (BA from REED College), USA TODAY, 12-15-2016, ["Venture capital is overwhelmingly white and male," https://www.usatoday.com/story/tech/news/2016/12/15/national-venture-capital-association-deloitte-diversity-survey/95453926/, DOA: 1-17-2018] // ATA

SAN FRANCISCO — Venture capital, the tech industry's most exclusive club, is overwhelmingly white and male. A new report says it doesn't have to stay that way. The first comprehensive look at the demographics of venture capital from its own trade association is a sobering snapshot of what decades of exclusion of women and minorities have wrought. Women, African Americans and Latinos are significantly underrepresented in venture capital, with few holding decision-making positions, according to the report to be released Thursday by the National Venture Capital Association and Deloitte University Leadership Center for Inclusion. Women make up 45% of the venture capital work force, mostly in administrative roles, but just 11% of investment partners, or the equivalent, on venture investment teams. African Americans make up 3% and Latinos 4% of the venture capital workforce. None of the 217 firms with more than 2,500 employees had an African-American investment partner. Kapor Capital institutes diversity pledge for its venture investments That stark lack of diversity was already evident to anyone who perused the web sites of venture firms or took a stroll through their upscale offices on Silicon Valley's Sand Hill Road. But the data gathered in the survey will serve as a critical benchmark by which to measure progress in bringing more women and minorities into the field, says Kate Mitchell of Scale Venture Partners who co-chairs the diversity task force of the National Venture Capital Association. Something else in the data offers a glimmer of hope that could persuade more venture firms to focus on diversity initiatives, she says. According to the survey, there's a direct link between outreach efforts and greater diversity. Venture capital firms with diversity and inclusion strategies had a significantly greater share of women and minorities in leadership. "We are not surprised by the data by any stretch of the imagination," Mitchell said. "But we got some data out of it that gives us a great sense of where we need to focus." Previous studies have consistently shown that venture capitalists are predominantly white men who, in turn, mostly fund companies started and run by other men. As a result, women and minorities have been largely left out of one of the world's greatest wealth creation machines. Venture capital firms control the spigot of wealth in high tech, providing early cash infusions to companies they bet will go on to become tomorrow's Apples and Googles. Diversity advocates have called on venture capital firms to make significant changes in the wake of a closely watched gender discrimination lawsuit against Kleiner Perkins, one of Silicon Valley's most prominent firms. Former partner Ellen Pao lost her case, but international news coverage of the trial shifted the spotlight on the lack of women and underrepresented minorities in the clubby profession. By and large, venture capital firms have failed to act on these calls to increase the number of women and minorities in their ranks and to fund more companies started by women and minorities, even though historically underrepresented groups are seen as key drivers of future growth in high tech. And, while the nation's leading technology companies open up about their efforts to increase employee diversity, the recruitment of women and minorities is still not a priority — or even on the agenda — at many venture firms or for the start-ups they fund, says Richard Kerby, a vice president with venture firm Venrock who is African American. Sequoia hires first female investing partner in U.S.A recent survey of 600 start-up investors and founders by LinkedIn bears that out. More than half of investors surveyed said an entrepreneur's commitment to diversity was the least of their concerns when deciding whether to invest. A majority of investors and founders were not aware of any initiatives to increase diversity among the companies in their portfolio or on their teams. "There are three groups of partners in venture. There is one group that does not care about diversity. There's a second group that cares but won't do anything about it. And there's a third group, which is the smallest of the groups, that does care and is trying to do some things," Kerby said. "A subset of that third group is going about it the right way and another subset of that group is going about it in the wrong way." Silicon Valley start-up weekend for Latinos by Latinos The National Venture Capital Association says it's owning up the industry's diversity problem and trying to do something about it. Venture capital firms get it, Mitchell says. Study after study shows employee diversity improves business and financial performance. And the tech industry is appealing to a global marketplace, where women and minorities increasingly wield economic power. Newer venture firms tend to be more diverse — more women, more minorities, more young people — giving them an edge over their more established peers. "Everyone gets the principle of it, that this will make us better investors. Nobody argues that," Mitchell said of her discussions with venture firms. "They grasp it as an abstract thought but we will only succeed when that understanding gets translated into practice." That's now the job of the National Venture Capital Association, says its president and CEO Bobby Franklin. "As a trade association we feel like once a problem is identified, our role is to help our members with the tools necessary to make a difference," he said.

**Leonard E. Burman and William G. Gale**, Brookings, 9-1-1997, ["The Case Against the Capital Gains Tax Cuts," https://www.brookings.edu/opinions/the-case-against-the-capital-gains-tax-cuts/, DOA: 1-14-2018] // ZWS

Yes, **capital gains cuts** **would raise saving and investment, but not by much**. **Capital gains taxes are a small part of all taxes** on saving and investment, and the effective rate on gains is already low. **Much investment would be unaffected because it is financed with debt or supplied by pension funds, non-profit institutions, and foreigners who do not pay capital gains taxes in the first place**. And saving is not very responsive to changes in its return. As a **result, conventional estimates suggest that cutting the top gains rate to 20 percent would raise private investment by less than 0.1 percent of GDP. Even that modest gain could be erased if the tax cut increases the deficit, causing interest rates to rise**. **Nor would a cut affect venture capital much.** **Capital gains on small new ventures are already taxed at half the rate of other capital gains. Much of the funds for venture capital come from sources that do not pay capital gains taxes and so would not be affected by cuts.**

**Carolin Bock**, TU Darmstadt, 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ZWS

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By doing so, **we are able to study the decisions for a sample of 76,852 funding rounds in 32 countries from 2000 to 2012**. Our results support the predictions of the theoretical model that higher capital gains tax rates are associated with fewer startups financed and a lower probability of receiving follow-up funding. **However, the results concerning the effect on the probability of success of start-ups show that a higher tax burden is associated with a higher probability of eventual start-up success.**

Luke Kanies, Nov 9 2017, Medium “If You Take Venture Capital, You’re Forcing Your Company To Exit.” //JN

https://medium.com/s/understanding-venture-capital/if-you-take-venture-capital-youre-forcing-your-company-to-exit-fc08fcdb32cc

This means that if you’ve got a great company that’s taken some **VC** but is at real risk of settling into a mere twenty percent growth rate with a sight to profitability but only making, say, $30 million a year, they’re going to push you out of that comfort zone. They have to. They**’ll ask you to raise a “growth” round so you can “really scale this thing”, or they’ll try to sell the company. If that doesn’t work, they’ll just fire you** and put someone in place who will do it for them. It’s not because they’re evil, it’s because their contracts essentially require it. They can’t return the stock of a private company to their LPs, so what choice do they have? Now that we understand how investor behavior is driven by how capital is returned to investors, let’s discuss what it means to the technology startup ecosystem as a whole. (There are VCs for things outside of tech, but the asset class was basically invented for technology, and that’s where it is centered.) If you’re seeking funding for your technology company, you essentially have to promise that you can and will sell your company for an outsized return, or that you can and will take it public. In reality, almost no one invests with the expectation of a sale; they’re all betting on an IPO, recognizing that a sale is a good second option. It doesn’t matter if you can generate a ton of profit; they have no use for that. In fact, it might get awkward if you started distributing dividends.This has two big consequences. The first, of course, is that companies that don’t have a realistic shot of going public can’t get venture capital. **This is a striking constraint, given how much of our economy consists of small, profit-generating businesses that generate jobs and cash locally, whereas the ranks of public companies that distribute returns only to the investment class have been shrinking for decades.** The story they’ll tell you is that only those really high-growth companies “need” VC money, but it’s much simpler than that: Their business model doesn’t work if your company doesn’t sell or go public.  Bank loans do ok at providing funding for low-risk actions by mature companies, and VC does well at funding high-risk companies with the chance to be huge, but there’s a huge gap in the middle that struggles to get any funding. (Both of these funding mechanisms in the US also suffer from being overwhelmingly biased toward only funding white men, but that’s a different essay.) Medium-risk companies often do need funding, but can’t get it, which in many cases means the businesses either don’t exist or end up much smaller than they could be. The second major consequence is that a lot of companies are able to convince themselves, and thus investors, that they could get big enough to go public. Yes, this is sometimes true, but in so many cases it is instead a lie that both parties tell in order to get the funding done. If you love your **company, and the only way to keep it alive is to promise to keep growing, you will. You understand the risks, but they’re better than just letting your company die. In too many cases, this absolute demand for continued growth is exactly what kills companies.** They never learn the operating discipline necessary to generate cash (which, in the end, actually still is king), and they get too big to sustain themselves. At some point, the lie gets out, they can’t get more funding, the fundamental unsoundness of their business model becomes clear, and the whole thing deflates.

Smith, Microfinance Institute, 2014.<http://www.denverpost.com/business/ci_26347045/microfinance-helps-low-income-folk-build-businesses-rise>

Rocky Mountain MicroFinance Institute provides in-depth learning, lending and coaching to support community entrepreneurs who build businesses to advance along the pathway to self-sufficiency and self-worth. In just three years, RMMFI has helped launch 83 businesses in Denver — changing lives as well as providing incomes and jobs for new business owners and their employees. "**Business ownership is risky, especially for someone with limited to no financial means or experience," said executive director Rob Smith. "RMMFI's investment goes beyond lending and activates the potential of its clients through education, capital and community engagement.**" The Colorado Enterprise Fund is an alternative lending source specializing in loans for small businesses and startups that are unable to receive traditional bank financing. For almost 40 years, in partnership with banks, foundations, government agencies and industry leaders, it has provided more than $35 million in loans to more than 1,600 state businesses to help create or retain more than 9,600 jobs.

**Carmen Nobel,** HBS, Food Stamp Entrepreneurs: How Public Assistance Enables Business Bootstrapping, 2014,<http://hbswk.hbs.edu/item/food-stamp-entrepreneurs-how-public-assistance-enables-business-bootstrapping>, Accessed 4/8/16,

Olds focused his initial study on the State Children's Health Insurance Program (SCHIP). Established in 1997, the program provides health insurance to uninsured children in moderate-income families. To research the link between SCHIP and entrepreneurship, Olds studied 1992-2011 data from the United States Census Bureau's Current Population Survey and Survey of Income and Program Participation. He compared data for households that fell just above the SCHIP income eligibility threshold with those that fell just below it, before and after the program took effect. This mimicked the effect of experimental treatment and control groups, a common research technique in cases when an actual experiment isn't practical or ethical. (In this case households that qualified for SCHIP were the treatment group**.) The data showed that SCHIP had a significant positive effect on entrepreneurship. The program increased the self-employment rate by 23 percent among eligible households compared with non-eligible households. The rate of new business births rose by 13 percent among households that qualified for SCHIP. The survival rate of new businesses rose by 8 percent. Olds took care to find out whether the businesses were serious, sustainable endeavors. "Economists tend to think in terms of employment growth potential," Olds says. "What I found was that the largest area of growth was newly incorporated firms. Eligible households were 31 percent more likely to have an incorporated business than ineligible ones, which is larger than the effect when you consider all firms. This means the distribution shifted: There are more firms overall because of the policy, but there are proportionally more incorporated firms. These were new ventures that people were serious enough about that they were willing to take the significant step of incorporation." He also discovered that the share of total household income from self-employment versus outside wages increased 16 percent.** That is, these new businesses were successful enough to contribute significantly to household income. "The newly self-employed are working longer hours per week, and more weeks per year, and are making more money from these firms," Olds says. "These aren't dogs that shouldn't have been firms in the first place. These are people's dreams that they've been held back from before."

Jessica Guynn, USA Today, 15 December 2016, “Venture capital is overwhelmingly white and male” //JN

https://www.usatoday.com/story/tech/news/2016/12/15/national-venture-capital-association-deloitte-diversity-survey/95453926/

SAN FRANCISCO — Venture capital, the tech industry's most exclusive club, is overwhelmingly white and male. A new report says it doesn't have to stay that way. The first comprehensive look at the demographics of venture capital from its own trade association is a sobering snapshot of what decades of exclusion of women and minorities have wrought. **Women, African Americans and Latinos are significantly underrepresented in venture capital, with few holding decision-making positions**, according to the report to be released Thursday by the National Venture Capital Association and Deloitte University Leadership Center for Inclusion. **Women make** up 45% of the venture capital workforce, mostly in administrative roles, but **just 11% of investment partners, or the equivalent, on venture investment teams. African Americans make up 3% and Latinos 4% of the venture capital workforce**. None of the 217 firms with more than 2,500 employees had an African-American investment partner. That stark lack of diversity was already evident to anyone who perused the web sites of venture firms or took a stroll through their upscale offices on Silicon Valley's Sand Hill Road. But the data gathered in the survey will serve as a critical benchmark by which to measure progress in bringing more women and minorities into the field, says Kate Mitchell of Scale Venture Partners who co-chairs the diversity task force of the National Venture Capital Association. Something else in the data offers a glimmer of hope that could persuade more venture firms to focus on diversity initiatives, she says. According to the survey, there's a direct link between outreach efforts and greater diversity. Venture capital firms with diversity and inclusion strategies had a significantly greater share of women and minorities in leadership. "We are not surprised by the data by any stretch of the imagination," Mitchell said. "But we got some data out of it that gives us a great sense of where we need to focus." Previous studies have consistently shown that venture capitalists are predominantly white men who, in turn, mostly fund companies started and run by other men. As a result, women and minorities have been largely left out of one of the world's greatest wealth creation machines. Venture capital firms control the spigot of wealth in high tech, providing early cash infusions to companies they bet will go on to become tomorrow's Apples and Googles. Diversity advocates have called on venture capital firms to make significant changes in the wake of a closely watched gender discrimination lawsuit against Kleiner Perkins, one of Silicon Valley's most prominent firms. [Former partner Ellen Pao](https://www.usatoday.com/story/tech/2015/03/27/ruling-in-the-ellen-pao-trial/70448092/) lost her case, but international news coverage of the trial shifted the spotlight on the lack of women and underrepresented minorities in the clubby profession. By and large, venture capital firms have failed to act on these calls to increase the number of women and minorities in their ranks and to fund more companies started by women and minorities, even though historically underrepresented groups are seen as key drivers of future growth in high tech. And, while the nation's leading technology companies open up about their efforts to increase employee diversity, the recruitment of women and minorities is still not a priority — or even on the agenda — at many venture firms or for the start-ups they fund, says Richard Kerby, a vice president with venture firm Venrock who is African American.

Ben Schiller 9.28.17, “Why Venture Capitalists Aren’t Funding The Businesses We Need” //JN

https://www.fastcompany.com/40467045/why-venture-capitalists-arent-funding-the-businesses-we-need

If you’re looking for money to start a new business, **it helps to be white, male, attractive-looking, and living in a place like Boston or San Francisco**. Better still, you want to have gone to a top-ranked university. People with these sorts of profiles win the lion’s share of funding from VC firms. **In 2014, Harvard Business School academic Alison Wood Brooks conducted a series of experiments designed to tease out the biases funders have toward certain groups. She found that male entrepreneurs are 60% more likely to get funding than females, even when women and men are pitching the same idea. Attractive males (as rated by participants) were 36% more likely to be successful than non-attractive males,** she found. In 2015, more than three-quarters of U.S. VC funding went to companies in three states: Massachusetts, New York, and California. Only 5% of capital went to female founders. [Just 1% went to African-Americans](https://www.fastcompany.com/40473294/one-reason-black-founders) and Latinos. Between 2007 and 2012, graduates of just six universities–Stanford, Harvard, Berkeley, MIT, NYU, and the University of Pennsylvania–received 10% of all the world’s startup financing. We like to think that entrepreneurship is a game that anyone with a good idea can win, like anyone, if they’re good enough, can play in the NFL or the Major Leagues. But the reality, according to Ross Baird, an experienced VC himself, is very different. In the actual world, hundreds of millions of dollars go to [$1,500 countertop ovens](https://juneoven.com/) and [$699 internet-connected juicers](https://www.fastcodesign.com/90110876/my-day-with-silicon-valleys-absurd-400-juicer), while people building worthy and useful products get left by the wayside. VCs fund products that solve problems they understand, it’s often said. And, being largely white, male, and elite-educated themselves, they fund people of the same backgrounds. Baird, who admits to being a white guy born of privilege himself, documents all this in [The Innovation Blind Spot: Why We Back the Wrong Ideas–and What To Do About It](https://www.benbellabooks.com/shop/innovation-blind-spot/)–a clearly written critique of the VC industry’s pretensions, prejudices, and failings. Baird explains how it is that VCs keep funding businesses offering conveniences we don’t really need (like, for example, the disastrously named Bodega, which wants to [replace bodega corner stores](https://www.fastcompany.com/40466047/two-ex-googlers-want-to-make-bodegas-and-mom-and-pop-corner-stores-obsolete)) while so many other needs, from hunger to financial inclusion, go largely unfulfilled.

Laura Entis (New York University), Center for Venture Research, US Small Business Accreditation, Angel Research Institute, Angel Capital Education Foundation, Entrepreneur, 11-20-2013, ["Where Startup Funding Really Comes From (Infographic)," https://www.entrepreneur.com/article/230011, DOA: 1-16-2018] // ATA

Prominent VCs and angel investors may dominate the headlines with their big sticker investments, but personal loans and credit – along with investments from friends and family – make up the lion's share of funding for startups in the U.S. According to data compiled by Fundable, only 0.91 percent of startups are funded by angel investors, while **a measly 0.05 percent are funded by VCs. In contrast, 57 percent of startups are funded by personal loans and credit, while 38 percent receive funding from family and friends**.

Michael **Hudson** (is a financial analyst and president of the Institute for the Study of Long Term Economic Trends. Hudson has written or edited more than 10 books on the politics of international finance, economic history, and the history of economic thought) & Kris Feder (associate Professor at Bard College in New York), The Jerome Levy Economics Institute of Bard College, 19**97**, ["Real Estate and the Capital Gains Debate," https://michael-hudson.com/wp-content/uploads/2010/03/97RealEstateCapitalGains\_wp17.pdf, DOA: 1-15-2018] // ATA

Much of the capital gains debate today focuses on the stock market. Business recipients of capital gains are characterized as small innovative firms making initial public offerings (IPOs). In recent years such firms have been responsible for a disproportionate share of new hiring. It is hoped that corporations will be able to raise money to employ more labor and invest in more plant and equipment if buyers of their stocks can sell these securities with less of a tax bite. Stock market gains thus are held to stimulate new direct investment, employment, and output. Typical of the campaign to reduce capital gains taxes is a Wall Street Journal editorial, “Capital Gains: Lift the Burden.” Author W. Kurt Hauser argues that when the capital gains tax rate was increased from 20 percent to 28 percent in 1989, the effect was to deter asset sales, causing a decline in the capital gains to be reaped and taxed. He refers, however, only to stock market gains, and specifically, to equity in small businesses. Citing the example of yacht producers, he suggests that taxing capital gains on stocks issued by these businesses “locks in” capital asset sales, thereby deterring new investment and hiring, and reducing the supply of yachts.16 Others contend that **new productive investment is relatively insensitive to capital gains tax rates, arguing, for example, that most of the money placed in venture-capital funds come from tax-exempt pension funds, endowments, and foundations**.17 What is missing from the discussion is a sense of proportion as to how capital gains are made. Data that is available from the Department of Commerce, the IRS, and the Federal Reserve Board indicate that roughly two thirds of the economy’s capital gains are taken, not in the stock market much less in new offerings--but in real estate.” The Federal Reserve Board estimates land values at some $4.4 trillion for 1994. Residential structures add $5.9 trillion, and other buildings another $3.1 trillion. This $13.4 trillion of real estate value represents two thirds of the total $20 trillion in overall assets for the United States economy.” Real estate accounts for three-fourths of the economy’s capital consumption allowances. It also is the major collateral for debt, and generates some two-thirds of the interest paid by American businesses. Real estate taxes are the economy’s major wealth tax, although their yield has declined as a proportion of all state and local revenues, from 70 percent in 1930 to about one-fourth today. Capital gains statistics are much harder to come by. One cannot simply measure the increased value of the capital stock, for part of the rise represents investment--production of new capital-iather than appreciation of existing capital and land. The IRS conducts periodic sampling of capital gains based on tax returns, and its Statistics on Income presents various analyses of the shares of total capital gains reported by the economy’s income cohorts, from the richest five percent down. The samples are admittedly asymmetrical, however, and some of the categories overlap. Significantly, for instance, stock market gains include a large component of land and other real estate gains.

John McDermott, Sept 20 2012,  INC, “Report: 75% of Venture-backed Start-ups Fail” //JN

https://www.inc.com/john-mcdermott/report-3-out-of-4-venture-backed-start-ups-fail.html

When it comes to venture capital, maybe you shouldn't believe the hype. About **75% of U.S. venture-backed start-ups fail**, according to Harvard Business School senior lecturer Shikhar Ghosh. The failure rate [Ghosh reported to the Wall Stree Journal](http://professional.wsj.com/article/SB10000872396390443720204578004980476429190.html?mod=WSJ_business_whatsNews&mg=reno64-wsj) is far higher than industry reported failure rates, which range from 20% to 30%. The National Venture Capital Association, for instance, estimates that only 25% to 30% of venture-backed start-up fail completely. Ghosh told the outlet that **venture capitalists "bury their dead very quietly.**" But the discrepancy may be due to different definitions of failure, he added. Ghosh's research estimates **30% to 40% of high potential start-ups end up liquidating all assets**--a failure by any definition. But **if a start-up failure is defined as not delivering the projected return on investment, then 95% of VC companies are failures**, Ghosh said. Despite Ghosh's research, [corporate venture capital investments climbed to $2.1 billion in the second quarter](http://www.cbinsights.com/blog/venture-capital/corporate-venture-capital-quarterly-q2-2012), a five quarter high, according to investment research firm CB Insights latest announcement.  Corporate venture capitalists accounted for 15% of all venture capital deals in the second quarter, and the average corporate venture capital deal was $7.8 million greater than all venture capital deals during the same period.

James Pethokoukis (was the business editor and economics columnist for U.S. News & World Report from 1997 to 2008. He has written for many publications, including The New York Times, The Financial Times, The Weekly Standard, Commentary, National Review, The Week, USA Today and Investor's Business Daily. In addition, he has appeared as a numerous time guest on MSNBC, Fox News Channel, Fox Business Network, The McLaughlin Group, CNN and Nightly Business Report on PBS. A graduate of Northwestern University and the Medill School of Journalism), AEI, 2-24-2016, ["On capital gains taxes, venture capital, and startups," http://www.aei.org/publication/on-capital-gains-taxes-venture-capital-and-startups/, DOA: 1-16-2018] // ATAAlthough this policy was not intentional in the United States, we argue that it has nevertheless developed into one of the most efficient ways to promote entrepreneurship. The reason is that the tax break targets startups receiving VC funding, a small but strategic sector of the economy. The policy lowers the effective taxation of startups that are screened by venture capitalists willing to invest their own funds, without requiring the government to determine which firms are entrepreneurial. Another major benefit is that innovative startups can be given a tax break without the need for broad capital gains tax cuts. It should be noted that innovative startups that can be defined as Schumpeterian entrepreneurs are a tiny percentage of firms and even a small share of new firms. Most new firms are best described as “mom-and-pop” operations without the ambition to grow or innovate (eg, Hurst and Pugsley 2011, Shane 2008 and Henrekson and Sanandaji 2014). It is difficult to ex ante separate innovative startups from non-entrepreneurial self-employment. However, VC-funded firms tend to represent a large segment of truly innovative firms which are screened by skilled professionals. A mere 0.1 to 0.2 percent of all firms in the US receive early- stage financing from specialized venture capitalists (Puri and Zarutskie 2012). Nevertheless, VC funded firms constitute the majority of firms that are sufficiently successful to go public (Kaplan and Lerner, 2010). A tax break that targets human capital in this segment is an effective way to promote innovative entrepreneurship without the high fiscal cost of broad capital gains tax cuts. There is another more subtle reason why lower taxes on employee stock options are preferable to broad tax cuts as a way to promote entrepreneurship: It is not only about the absolute tax rate. Taxes relative to other sectors matter. Entrepreneurial startups are extremely important issue, but a small sector relative to the entire stock of financial and human capital. Entrepreneurial firms compete for talent with other sectors of the economy. Most importantly with large incumbent firm but overpriced with academia, non-entrepreneurial small businesses, non-profit organizations and government. Capital may not be invested at all due to high taxes, but it can be overpriced, invested passively in the stock market rather than in private equity. Broad-based capital gains taxes do not shift capital investments from passive to private equity, unlike tax breaks on stock options and other instruments widely used by the VC sector.

### A2 Angel Investors

#### 1. Mitigate, Entis 13 of New York University explains that only 0.9% of startups are funded by angel investors.

Laura Entis (New York University), Center for Venture Research, US Small Business Accreditation, Angel Research Institute, Angel Capital Education Foundation, Entrepreneur, 11-20-2013, ["Where Startup Funding Really Comes From (Infographic)," https://www.entrepreneur.com/article/230011, DOA: 1-16-2018] // ATA

Prominent VCs and angel investors may dominate the headlines with their big sticker investments, but personal loans and credit – along with investments from friends and family – make up the lion's share of funding for startups in the U.S. According to data compiled by Fundable, only 0.91 percent of startups are funded by angel investors, while a measly 0.05 percent are funded by VCs. In contrast, 57 percent of startups are funded by personal loans and credit, while 38 percent receive funding from family and friends.

### A2 Int’l Competitiveness

#### 1. Delink; Venkatesh ‘18 of CNBC explains that investors don’t care about tax incentives, but rather growth. Indeed, China which has a 25% capital gains tax has attracted record investment.

#### 2. Delink; Pomerleau ‘15 of the Tax Foundation reports that the average OECD capital gains tax is 18.4%. Trump’s recent cuts have lowered capital gains tax to 15% -- competition already exists.

#### 3. Delink; Davidson ‘17 of USA Today -- during the Obama administration while the capital gains tax was higher -- reports that the US competitive ranking is the highest in 8 years at 2nd place. Clearly it’s not causal. This is furthered by Woods ‘17 of Bloomberg finds that after the Trump election, the US ranking fell due to fears about protectionist trade policies. At that point their argument is alternatively causal.

Paul Davidson, USA TODAY, 26 Sept 2017, “U.S. economy gains, ranks second in competitiveness” //JN

https://www.usatoday.com/story/money/2017/09/26/u-s-economy-gains-ranks-second-competitiveness/704798001/

**The U.S. is the second-most competitive economy in the world, its highest ranking in eight years, the World Economic Forum said** Tuesday as the country’s innovation edge and business optimism bolstered its standing. Switzerland retained its No. 1 ranking, according to the forum’s global competitiveness report for 2017-18. Rounding out the top 10 behind the U.S. among 137 countries are Singapore, the Netherlands, Germany, Hong Kong, Sweden, the United Kingdom, Japan and Finland. The U.S. moved up from third place last year. It lost its top status during the financial crisis and recession of 2007-09, and fell as low as No. 7 in 2012-2013 before steadily climbing the past few years. **Among the country’s biggest strengths are its ability to innovate, which relies on close collaboration between businesses and universities in research and development,** says Daniel Gomez Gaviria, the forum’s head of competitiveness research and author of the report. Innovation has loomed as an increasingly more significant factor in the global economy in recent years, he says. “The big strength of the U.S. is its innovation and business sophistication,” which refers to the efficient ways the country makes products and delivers them to customers, Gaviria says. The U.S. moved up to seventh and sixth places, respectively, in market efficiency and technological readiness, the report says.

Randy Woods, 31 May 2017, Bloomberg, “U.S. Slips in Global Competitiveness Ranking as China Shoots Up” //JN

https://www.bloomberg.com/news/articles/2017-05-31/u-s-slips-in-global-competitiveness-ranking-as-china-shoots-up

**The U.S. fell out of the top three in a global competitiveness ranking**, as executives’ perception of the world’s biggest economy deteriorated **after Donald Trump’s election**. The U.S. slipped one spot to fourth in an annual ranking published by the IMD World Competitiveness Center, a research group at IMD business school in Switzerland. It trails Hong Kong, Singapore and Switzerland. The U.S. last took top spot in the 2015 ranking. The results are based on 261 indicators, with about two-thirds coming from so-called “hard data,” gathered mainly last year, such as employment and trade statistics. The balance came from more than 6,250 executive-opinion surveys conducted this year. The report ranks 63 economies based on a sliding scale, with 100 being the most competitive. The U.S. drop largely reflects survey results, as global executives questioned by IMD ranked the country lower in categories including government and business efficiency. **Respondents saw a greater risk of political instability and protectionism**, which offset the country’s progress in reducing unemployment and stabilizing inflation, according to the report.

Venkatesh, Latha. CNBC “Budget 2018: Ten reasons to tax capital gains on shares,” Money Control. January 10, 2018. //JN http://www.moneycontrol.com/news/business/markets/budget-2018-ten-reasons-to-tax-capital-gains-on-shares-2479163.html The more important deduction from the table is that **for the past 25 years China has attracted record foreign flows and now, domestic flows, despite a 25% capital gains tax. So have most European countries. Clearly global investors hunt for growth and are not swayed by tax incentives** alone. So if India is one of the fastest growing economies, a tax on capital gains ought not to deter genuine long only investors.

Kyle Pomerleau, 24 March 2015, Tax Foundation, “U.S. Taxpayers Face the 6th Highest Top Marginal Capital Gains Tax Rate in the OECD” //JN

https://taxfoundation.org/us-taxpayers-face-6th-highest-top-marginal-capital-gains-tax-rate-oecd/

**The current** federal top marginal **tax rate on long-term capital gains** in the United States is a total of 23.8 percent (20 percent plus a 3.8 percent tax to fund the Affordable Care Act) for taxpayers with adjusted gross incomes of $200,000 ($250,000 married filing jointly) or more. In addition, states and some localities levy taxes on capital gains income, which range from zero percent in states with no individual income tax, such as Florida, Texas, South Dakota, and Wyoming, to 13.3 percent in California. An individual who has capital gains income is subject to both federal and state capital gains taxes. Taking into account the federal deductibility of state taxes and the phase-out of itemized deductions, the average top marginal capital gains tax rate faced by U.S. taxpayers is 28.6 percent. This is the 6th highest rate in the OECD. Taxpayers in most OECD countries face much lower capital gains tax rates than their counterparts in the United States. Only taxpayers in Denmark (42 percent), France (34.4 percent), Finland (33 percent), Ireland (33 percent), and Sweden (30 percent) face higher rates. The U.S. rate is about 10 percentage points higher than the **OECD average (18.4 percent) and 5 percentage points higher than the weighted average (23.2 percent)**. Nine OECD countries full-exempt most capital gains income.

### A2 Diversification

#### Long term changes to the tax don’t cause people to realize their gains and invest, Kini 11’ finds that short term cuts to capital gains will cause people to realize their capital gains, but long-term changes will have no effect on realization.

**Mathew Kini**, No Publication, 2011, ["," https://www.cob.calpoly.edu/undergrad/wp-content/uploads/sites/3/2017/10/Top-Senior-Project-Sp2011-Kinni.pdf, DOA: 1-22-2018] // ZWS

For those economists that argue a lower capital gains tax will stimulate the economy by causing more people to invest, reviewed literature suggests otherwise (Feenberg & Summers, 1990)7 . The Congressional Research Service report entitled The Economic Effects of Capital Gains, which I’ve sourced other times throughout this paper, explains it like this: “**the traditional economic theory of saving, the life-cycle model, assumes that individuals make rational, far-sighted decisions. The preponderance of empirical evidence, however, does not support the life-cycle model**” (Hungerford, 2010)14. In other words, **while it might be rational for people to increase their capital investments as a result of a lower capital gains tax law, people are for the most part irrationalons**

**Mathew Kini**, No Publication, 2011, ["," https://www.cob.calpoly.edu/undergrad/wp-content/uploads/sites/3/2017/10/Top-Senior-Project-Sp2011-Kinni.pdf, DOA: 1-22-2018] // ZWS

After looking over a number of journal articles and other resources which have studied the behavioral effects resulting from changes in capital gains tax laws, I think the most concrete point to gather is that while nobody really knows the exact mathematical relationships that underline this connection due to the many statistical issues inherent in this type of research (as mentioned by Zodrow), **the overall consensus is that short term tax changes will stimulate people to realize capital gains they had sitting around rather than stimulate new investment, while long term tax changes have no discernable effect on realization behavior**. If true, this is a very important finding for my analysis

**Benjamin P. Yost**, Boston College, 06-17-2017, ["," https://poseidon01.ssrn.com/delivery.php?ID=908065002113090019016031001116017092002057081068083017073028116026122024111000079025031050122061114096018115069005092028089067000023046060084069117004083090076073119027093041070085005085001089123001109078124090074065011108004029007070091095096007020092&amp;EXT=pdf, DOA: 1-15-2018] // ZWS

**Taxes on capital gains discourage the sale of appreciated assets, leading to distortions in asset prices and in investors’ portfolio allocation decisions** (e.g., Feldstein, Slemrod, and Yitzhaki 1980; Dammon, Spatt, and Zhang 2004). **This distortionary behavior is commonly referred to as the “lock-in” effect**. Existing research in this area tends to focus on the investment decisions of external investors who lack direct control over the firms’ core operations. **This focus in prior research overlooks the impact of taxes on another important class of investors – those internal to the firm**. Specifically, I predict that investor-level tax effects on managers have potentially important consequences for corporate policies because, unlike most external investors, managers have direct influence on firms’ strategic and operational activities. In this paper, I study the tax lock-in effect on CEOs and the implications of this effect for corporate risk-taking. CEOs generally own stock in the firms that employ them, and recent work suggests that anticipated tax liabilities discourage CEOs from selling shares (Jin and Kothari 2008; Armstrong, Core, and Guay 2015). I hypothesize that over time, **the tax friction causes CEOs to become overexposed to firm-specific risk, and to respond by reducing the firm’s risk to limit their personal risk.** Specifically, I predict that **unrealized tax liabilities on CEOs’ stock holdings in their firms (hereafter, CEOs’ tax burdens) are negatively associated with corporate risk-taking**

**Benjamin P. Yost**, Boston College, 06-17-2017, ["," https://poseidon01.ssrn.com/delivery.php?ID=908065002113090019016031001116017092002057081068083017073028116026122024111000079025031050122061114096018115069005092028089067000023046060084069117004083090076073119027093041070085005085001089123001109078124090074065011108004029007070091095096007020092&amp;EXT=pdf, DOA: 1-15-2018] // ZWS

As noted in prior literature, **CEOs of U.S. firms tend to hold a significant portion of their personal wealth in firm equity** (e.g., Hall and Murphy 2002; Conyon, Core, and Guay 2011), **causing executives to be relatively undiversified. Without proper diversification, risk-averse [leading CEOs to] managers have an incentive to protect their equity investment, as well as their human capital investment, in the firm** (Amihud and Lev 1981).

**Benjamin P. Yost**, Boston College, 06-17-2017, ["," https://poseidon01.ssrn.com/delivery.php?ID=908065002113090019016031001116017092002057081068083017073028116026122024111000079025031050122061114096018115069005092028089067000023046060084069117004083090076073119027093041070085005085001089123001109078124090074065011108004029007070091095096007020092&amp;EXT=pdf, DOA: 1-15-2018] // ZWS

In this paper, I study the effects of CEOs’ unrealized tax liabilities on corporate risk-taking. Building on recent work showing that **large anticipated tax obligations discourage CEOs from selling stock, I conjecture that the tax lock-in effect causes the executives to become overexposed to firm-specific risk. [and] In response,** I predict that **CEOs make more conservative decisions with regard to the firm in an effort to limit their own personal risk**. Consistent with this hypothesis, I find that corporate risk-taking decreases as CEOs’ personal tax burdens increase. **Further,** I find that **[however]** **risk-taking increases following individual capital gains tax cuts** at the federal and state levels, and the effect is driven by CEOs with significant unrealized tax liabilities. The evidence indicates that **[as the]** **tax cuts alleviate the lock-in effect on CEOs by lowering the tax cost of selling stock, thereby allowing the executives to reduce their holdings in the firm and diversify their personal wealth**

**Benjamin P. Yost**, Boston College, 06-17-2017, ["," https://poseidon01.ssrn.com/delivery.php?ID=908065002113090019016031001116017092002057081068083017073028116026122024111000079025031050122061114096018115069005092028089067000023046060084069117004083090076073119027093041070085005085001089123001109078124090074065011108004029007070091095096007020092&amp;EXT=pdf, DOA: 1-15-2018] // ZWS

The results in Armstrong et al. (2017) indicate that higher ordinary income tax rates are associated with greater idiosyncratic risk-taking, whereas **I find that capital gains tax reductions lead to stock sales and increased risktaking**, but only for formerly locked-in CEOs. Ultimately I view our papers as complementary efforts to understand the incentive effects of managers’ personal taxes on corporate risk-taking.

### A2 Increase Savings Value

#### 1. Brett Romero 16’ explains that the vast majority of people are not effected by the high capital gains tax, only high wealth investors. These people already have more money then they could ever spend and cannot be driven by a desire for future consumption. These people are already consuming everything they want.

#### 2. Delink, Chetty ’15 of Harvard University looked at millions of data points on changes in savings after a change in tax policy in Denmark, concluding that that 85 percent of workers were non-responsive to changes in tax incentives and savings rates were unaffected.

#### 3. Thomas Hungerford 10’ explains that once a persons target level of wealth is attained many individuals suspend active saving. Indeed, Saving Rates have fallen over the past 30 years while the capital gains tax rate has fallen from 28% to 15%. This suggest changing the capital gains tax has little effect on private savings.

Cards:

Romero, Brett. [Economist and data scientist with over 12 years of experience extract- ing, cleaning, transforming and drawing conclusions from a range of datasets]. “THE ARGUMENT FOR TAXING CAPITAL GAINS AT THE FULL RATE”.14 January 2016. //JN

http://brettromero.com/the-argument-against-taxing-capital-gains-at-a-lower-rate/

The second point raised by McArdle is the argument that if you reduce the returns from investing (by raising tax rates), people will substitute away from saving and investing (future consumption) and instead spend the money now (immediate consumption). The way to think of this is not of someone cashing in all their assets and going on a spending spree because the capital gains tax rate increased. That is extremely unlikely to happen and would actually make no sense. The change will come on the margin – because the returns on investment have decreased slightly (for certain asset types), there will be slightly less incentive to save and invest. As a result, over time, less money ends up being invested and is instead consumed. But let’s consider who would be affected. If we think about **the vast majority of people, their only exposure to capital gains is through their pension fund and the property they live in, neither of which would be affected by increasing the individual capital gains tax rate**. Day traders, high frequency traders and anyone holding stocks for less than a year on average would also be unaffected. Most investors in start-ups do so through investment vehicles that are, again, not subject to individual capital gains tax[[5]](http://brettromero.com/the-argument-against-taxing-capital-gains-at-a-lower-rate/#_ftn5). **That leaves** two main groups of investors impacted by an increase in the capital gains tax rate for individuals: 1. Property investors 2. High net worth individual investors Given property investing is not what most people are thinking about when concerns about capital gains tax rates reducing investment are raised, let’s focus on **high wealth investors**.The key issue when considering how these investors  would be affected by an increase in the capital gains tax rate is identifying what drives them to invest in the first place. **Many of them literally have more money than they could ever spend, which means their investment decisions cannot be driven by a desire for future consumption**. Many of their kids will never want for anything either, so even ensuring the financial security of their kids is not an issue. The only real motivation that can be left is simply status, power and prestige. Or as the tech industry has helpfully rebadged it – ‘making the world a better place.’ If that is the motivation though, **does a rise in the capital gains tax rate change that motivation? To my mind, the answer to that question is ‘No’. These people are already consuming everything they want**, or in economic parlance, their desire for goods and services has been satiated. They will gain no additional pleasure (‘utility’) from diverting savings to consumption, so there is no incentive to do so even when the gains from investing are reduced. Of course, there are exceptions, and it is quite possible (even likely) that there are high net worth individuals who live somewhat frugally and as a result of this policy change would really start splashing out. The question is how significant is this amount of lost investment, and does the loss of that investment capital outweigh the cost to society more widely of a deduction that flows almost entirely to the wealthy.

Heather Boushey (Executive Director and Chief Economist at the Washington Center for Equitable Growth and co-editor of a volume of 22 essays about how to integrate inequality into economic thinking), World Economic Forum, 3-5-2015, ["Taxation and fairness in an era of high inequality," https://www.weforum.org/agenda/2015/03/taxation-and-fairness-in-an-era-of-high-inequality/, DOA: 1-25-2018] // ATA

Given the rise in inequality, what can tax policy do about this trend? One potential concern about taxation is that in an effort to reduce inequality, it can reduce economic growth and cause more problems than were already there. An increase in labor taxation might cause some workers to work less or an increase in capital taxation might cause a reduction in savings, both of which are important for economic growth. These assumptions are widely held by policymakers and economics commentators. And to a certain extent they are true. But the level of taxation at which these problems would occur is much higher than usually expected. On the subject of income taxation, a body of new research shows that labor income taxes for those at the top of the income ladder have no adverse effect on economic growth. A paper by Nobel Laureate Peter Diamond and UC-Berkeley economist Emmanuel Saez reviewed the research literature on income taxation and finds that progressive taxation is well-supported by the research. When it comes specifically to top rates, another paper by Saez along with Thomas Piketty and Harvard University’s Stefanie Stantcheva look at the underlying forces that determine what the optimal level of taxation could be. After accounting for a variety of factors, the three economists find that the top marginal rate could be as high as 83 percent without affecting economic growth. I wouldn’t take this paper as evidence that the United States could increase its top income rate to such a level. Rather, the result is instructive that tax rates could be significantly higher without major adverse effects. Research also shows that reducing certain tax expenditures wouldn’t negatively affect the economy either. Research that shows tax incentives are often ineffective at incentivizing behavior. The tax code may provide a tax break for a certain behavior on the belief that this economic incentive will dramatically change behavior, but some work casts doubt on how much behavior is changed by these kind of incentives. Take, for example, Harvard economist Raj Chetty’s work on retirement savings decisions. He and his co-authors look at millions of data points on changes in retirement savings after a change in tax policy in Denmark. What they found is that 85 percent of workers were non-responsive to changes in tax incentives and savings rates didn’t decline. Of course, this result isn’t perfectly applicable to the U.S. situation. But its results are suggestive and should be considered in the U.S. policy situation. New research also challenges the idea that capital taxation will invariably result in lower savings and consequently lower economic growth. Recent work that shows the long-held belief that capital income shouldn’t be taxed at all is flawed. A paper by Piketty and Saez shows the flaws with the famous Chamley-Judd assumptions. Chamley-Judd assumptions imply that savers have infinitely long-time horizons when thinking about saving for the future. If I care about the returns on my savings very, very far in the future, then a tax on savings would end up compounding to a point where the burden is immense. Taxing capital in this situation would drastically reduce savings. But Piketty and Saez show that this assumption doesn’t hold up under scrutiny. And a recent paper by Ludwig Straub and Ivàn Werning of the Massachusetts Institute of Technology show that the zero taxation result doesn’t even hold up within the Chamley-Judd framework. There is also the assumption that reducing capital taxation will induce corporations into investing more. The reduction in taxation supposedly will increase the return to investment. But research by the University of California-Berkeley’s Danny Yagan finds that the 2003 dividend tax cut didn’t have any effect on investment or employee compensation. Yagan compares the investment behavior of public companies, which would were affected by the tax cut, with the behavior of privately held companies. What he found was that the public companies, which should have invested more due to the tax cut, didn’t invest more than similar privately held companies. Another possible form of capital taxation is increased taxation of bequests and inheritances. A 2013Econometrica article by Piketty and Saez argues that the optimal tax rate for inheritances for the United States may be as high as 60 percent. And that the rate would be even higher for those at the very top. In their paper a high inheritance tax is optimal if those bequeathing wealth are relatively unaffected by taxation, inheritances are very unequally distributed and society favors work over inheritance. And the United States fits this description, hence the high level of taxation found in their paper. With this knowledge, what can we say about tax policy moving forward?

**Cedric Johnson**, Progressive Pulse, 1-21-2015, ["Capital gains tax breaks won’t help economy, bypasses most North Carolinians," http://pulse.ncpolicywatch.org/2015/01/21/capital-gains-tax-breaks-wont-help-economy-bypasses-most-north-carolinians/, DOA: 1-15-2018] // ZWS

**There is no apparent cause-and-effect relationship between changes in the top capital gains tax rate and savings, investment, or productivity growth.** **Cuts in the federal capital gains rate have not promoted growth.** Accordingly, capital gains tax breaks are unlikely to boost North Carolina’s economy**. At a time when so many families struggle to make ends meet and the state is cutting support for schools, higher education, and other essential job-creation tools, ensuring that the state’s tax system is fair and able to generate enough revenue for vial public investments is as important than ever. Now is the time to make sure** North Carolina **[we] supports schools, community colleges and universities, and other important public services so that everyone has the chance to get ahead. State lawmakers should reject calls to eliminate or cut capital gains taxes and instead work to improve the state’s tax system** so that it truly works for all North Carolinians.

Hungerford, Thomas. [Specialist in public finance at the Congressional Research Service]. “The Economic Effects of Capital Gains”. Congressional Research Service, 2010. //JN

https://fas.org/sgp/crs/misc/R40411.pdf

National saving is made up of saving by the government (public saving) and by households and firms (private saving). Public saving is equal to the government’s deficit or surplus—it is negative for a deficit and positive for a surplus. Reducing capital gains tax rates will likely reduce public saving because it reduces tax revenues without affecting outlays; this increases a budget deficit or decreases a budget surplus.12 Households save by investing in their own business or investing in stocks, bonds, and other financial instruments. Changing capital gains tax rates changes the after-tax rate of return on investments (for example, reducing the tax rate increases the after-tax return). The change in the rate of return has two offsetting effects on saving. Increasing the rate of return can increase households’ willingness to save (the substitution effect). But at the same time, the increased return allows households to save less to maintain their desired or target wealth level (the income effect). Consequently, the effect of capital gains taxes on private saving is likely to be small. The traditional economic theory of saving, the life-cycle model, assumes that individuals make rational, far-sighted decisions. The preponderance of empirical evidence, however, does not support the life-cycle model.13 Behavioral theories of saving emphasize the role of inertia, the lack of self-control, and the limit of human intellectual capabilities. To cope with the complexities involved in making saving decisions, individuals often use simple rules of thumb and develop target levels of wealth. **Once their target level of wealth is obtained, many individuals suspend active saving**.14 **Saving rates have fallen over the past 30 years while the capital gains tax rate has fallen from 28% in 1987 to 15% today** (0% for taxpayers in the 10% and 15% tax brackets). **This suggests that changing capital gains tax rates have had little effect on private saving**. Some have argued that preferential capital gains tax rates will boost high risk investments such as in venture capital. Most venture capital, however, is supplied by pension funds, college endowments, foundations, and insurance companies—sources not associated with the capital gains tax. In 2003, only about 10% of investors in venture capital funds were individuals and families.15 Additionally, for risk averse investors, the capital gains tax could act as an insurance for risky investments by reducing losses as well as gains—it decreases the variability of returns.16 The $3,000 loss limit may reduce the insurance value of the capital gains tax. But research has shown that almost three-quarters of taxpayers with capital losses were not subject to the loss limit because losses were less than $3,000 or gains offset the losses.17 Of those affected by the loss limit, two-thirds were able to deduct losses against gains or other income within two years. The capital gains tax, therefore, may have little effect on risk- taking and may even encourage it. Capital gains tax rate reductions appear to decrease public saving and may have little or no effect on private saving. Consequently, capital gains tax reductions likely have a negative overall impact on national saving.

### A2 Future Tax Increase

#### The climate of the political means that a future tax increase is pretty unlikely Steven Mufson 11’ explains 3 reasons.

#### The house majority leader has been courted by the financial industry as they have donated him millions in campaign contributions.

#### Low capital gains taxes are super popular among political contributors, and that there is an enormous amount of lobbying that takes place in favor of cutting capital gains. Whereas there is very little lobbying for the other side means that congress will always have incentive to keep taxes low.

#### Members of congress themselves are well off meaning that they are more likely to be sympathetic to the argument for a low tax.

#### Read politics DA from Neg V1

**Steven Mufson**, Washington Post, 9-11-2011, ["Capital gains tax rates benefiting wealthy are protected by both parties," https://www.washingtonpost.com/business/economy/capital-gains-tax-rates-benefiting-wealthy-are-protected-by-both-parties/2011/09/06/gIQAdJmSLK\_story.html, DOA: 1-20-2018] // ZWS

**Now House majority leader, Cantor is even more central in the tax debate and is still courted by the financial industry. “Leader Cantor believes in lower taxes across the board for workers, small-business people and job creators,”** said Cantor’s spokeswoman, Laena Fallon. Last year, **his two fundraising committees hauled in nearly $2 million from securities and investment firms and real estate companies.** Cantor has also received substantial campaign contributions from private equity firms. [KKR](http://washpost.bloomberg.com/marketnews/stockdetail/?symbol=KKR) was his fifth-largest contributor in the last election cycle, giving $52,600. “**Wall Street loves the preferential capital gains rate. All of America’s 20- or 30 million wealthy small investors love capital gains rates**,” Sullivan said. “**It’s just a tremendously popular item with political contributors. It’s something that directly impacts every wealthy household in America.”**

**Steven Mufson**, Washington Post, 9-11-2011, ["Capital gains tax rates benefiting wealthy are protected by both parties," https://www.washingtonpost.com/business/economy/capital-gains-tax-rates-benefiting-wealthy-are-protected-by-both-parties/2011/09/06/gIQAdJmSLK\_story.html, DOA: 1-20-2018] // ZWS

**The 400 richest taxpayers in 2008 counted 60 percent of their income in the form of capital gains** and 8 percent from salary and wages. The rest of the country reported 5 percent in capital gains and 72 percent in salary. The result, Hacker says, is that the **lobbying winds up being lopsided, too**. “The **amount of lobbying that takes place on tax policy from the deep-pocketed interests that have the most at stake is enormous,” Hacker said. “There’s very little representation on the other side.” “Don’t forget,” he added, “that members of Congress themselves, particularly senators, are well off and they’re more likely to be sympathetic to the argument for low capital gain**

### A2 Increases Stock Value

### A2 Lock-In Effect

#### 1. Our opponents talk about this absurd idea of a lock-in effect. Realize that holding onto assets does not avoid tax, it only delays it. Brett Romero explains that there is no benefit to waiting, you’ll still end up paying the tax, thus this lock-in effect doesn’t exist

#### 2. Turn. If you believe what they say , then investors will start selling very quickly, leading to volatility and speculation, which is exactly what the capital gains tax was implemented to prevent. This acts as a link into our case.

#### 3. This is very short term. Dai Zhonglan from the University of Dallas writes in 2006 that because buyers want to capture the tax cut benefit, they buy before the tax cut takes place, but after the cut they are no more likely to invest in assets. Therefore, he concludes that even after the tax cut, there will still be lock in.

Romero, Brett. [Economist and data scientist with over 12 years of experience extract-ing, cleaning, transforming and drawing conclusions from a range of datasets]. “THE ARGUMENT FOR TAXING CAPITAL GAINS AT THE FULL RATE”. Brett Romero:Data Inspired Insights, 2017.‘Lock-in’ is the idea that investors, to avoid paying capital gains tax, will stop selling their assets. An investor holding onto assets to avoid tax implies they are being incentivized, through the tax system, to invest suboptimally – something economists really dislike. However, as far as ‘lock-in’ would occur, it cannot be considered anything other than an irrational reaction. Holding onto assets does not avoid tax, it only delays it, and given inflation is factored into the asset price (as discussed above), there is not even the benefit of time reducing the tax burden. The bottom line is this – to pay more capital gains tax, there must be larger capital gains. That is, even if the capital gains tax rate was 99%, an investor would still be better off making larger capital gains than smaller ones. The other point to remember when it comes to ‘lock-in’ is that in both the US and Australia, the lower rate of capital gains tax only applies to assets held for more than a year. That means if ‘lock-in’ exists, it is already a major problem. Because asset holders can access a lower rate of tax by holding an asset for a year, they are already strongly incentivized to hold onto their underperforming assets longer than is optimal to access the concessional tax rate. In fact, increasing the long-term capital gains tax rate to the same level as the short-term rate should actually reduce lock-in by removing this incentive.

Dai, Zhonglan. “Capital Gains Taxes and Asset Prices: Capitalization or Lock-in?” *University of Texas at Dallas*, 2006, www.utdallas.edu/~hxz054000/revised\_JAN08\_2007\_formatted.jf.doc.

Having a well-defined event is particularly important in this study because we need to define separate event windows for two opposing effects. The key to jointly identify the capitalization effect and the lock-in effect is to understand that stock buyers and sellers perceive the expected capital gains tax cut differently as we discussed above. They differ not only from required rate of return or valuation, but also from when they react to the news/event. A buyer, in order to capture the expected tax cut benefit, will react to the capital gains tax cut information before the tax cut becomes effective. On the other hand, a seller who is subject to capital gains taxes will more likely sell shares with embedded capital gains to rebalance his portfolio after the tax cut becomes effective. As a result, the capitalization effect is more likely to dominate before the tax cut announcement and the lock-in effect is more likely to dominate after the tax cut becomes effective.

## A2 Examples

### A2: 2003 Cuts Successful

#### 1. Delink, Amromin ’06 of the Federal Reserve analyzed the relationship between the 2003 tax cuts and stock market performance and concluded that they had little, if any imprint on the value of the aggregate stock market.

GENE AMROMIN (Ph.D. Department of Economics, University of Chicago, M.A. Department of Economics, University of Chicago, B.A. Economics and Mathematical Methods in Social Sciences, Northwestern University. He has been published in a number of scholarly journals, including the Journal of Political Economy, the Journal of Financial Economics, and the Journal of Public Economics. During 2011-12, he served as a senior economist on the President’s Council of Economic Advisers), Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs Federal Reserve Board, Washington, D.C., May 29, 2006, ["How Did the 2003 Dividend Tax Cut Affect Stock Prices?," https://www.federalreserve.gov/PUBS/FEDS/2005/200561/200561pap.pdf, DOA: 1-18-2018] // ATA

Conclusions. In summary, we find little if any imprint of the dividend tax cut news on the value of the aggregate stock market. U.S. large-cap and small cap indexes did not outperform either their European counterparts or REIT stocks during the event windows, regardless of how broadly those windows are defined. The tax cut did appear to have statistically significant, cross-sectional effects on stock valuations, with high-dividend firms receiving a boost at the expense of low-dividend firms, although this effect seems to have been short-lived. We also find evidence of positive excess returns on zero-dividend stocks. However, further scrutiny of the time-series and cross-sectional pattern of these excess returns suggests that they were probably unrelated to the dividend tax cut. This interpretation is supported by our finding that zero-dividend stocks outside the U.S. exhibited similarly positive abnormal returns during the tax event windows while foreign dividend-paying stocks showed no measurable response.

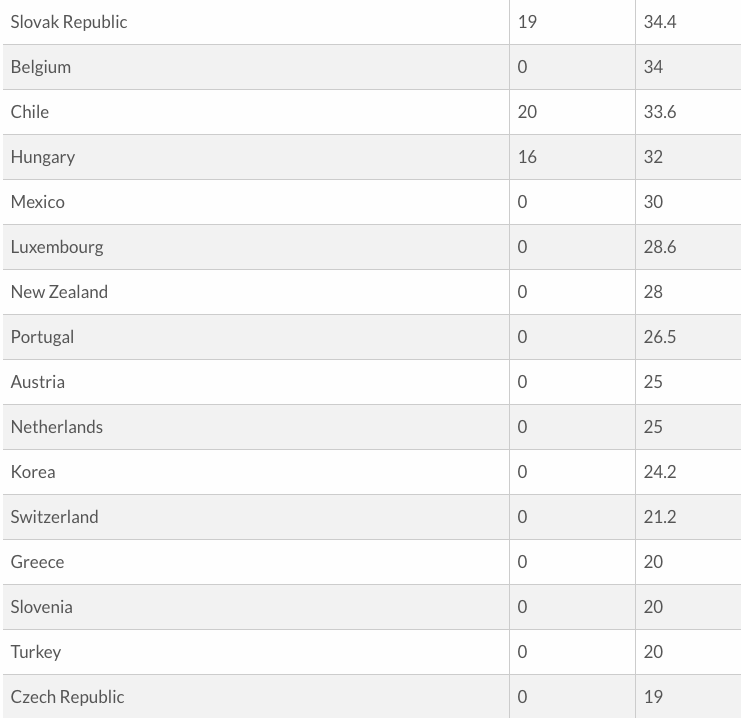
### A2: Mexico

#### (1 response)

#### 1. Delink, even if Mexico doesn’t tax individual capital gains, the Tax Foundation ’11 find that they tax corporate capital gains which are far more influential in economic output. Two implications: 1.) throw out the example because it’s false and 2.) use it against them because it means healthy economic growth can occur with a capital gains tax in place.

Picture:

Tax Foundation, 7-6-2012, ["Capital Gains Rate By Country, 2011 (OECD)," https://taxfoundation.org/capital-gains-rate-country-2011-oecd/, DOA: 1-17-2018] // ATA

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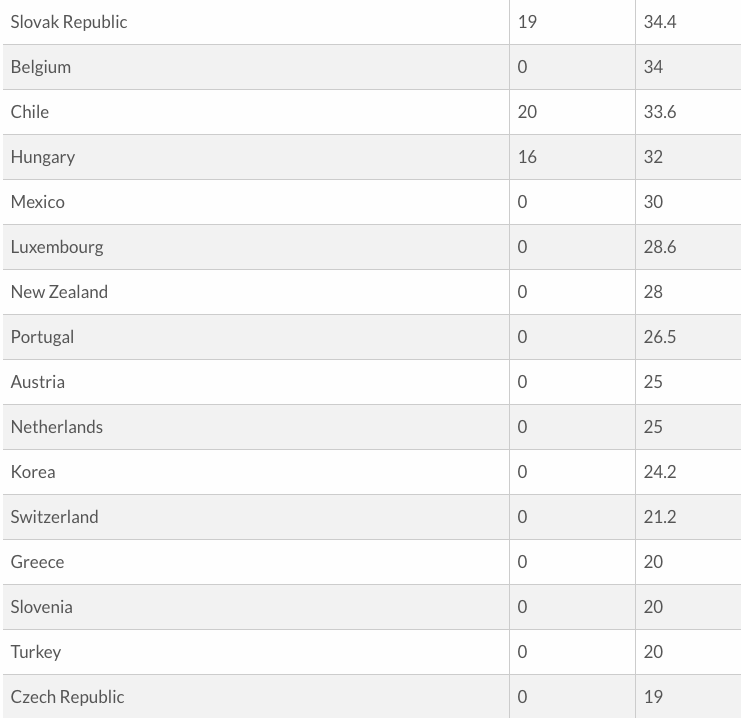
### A2: Luxembourg

#### (1 response)

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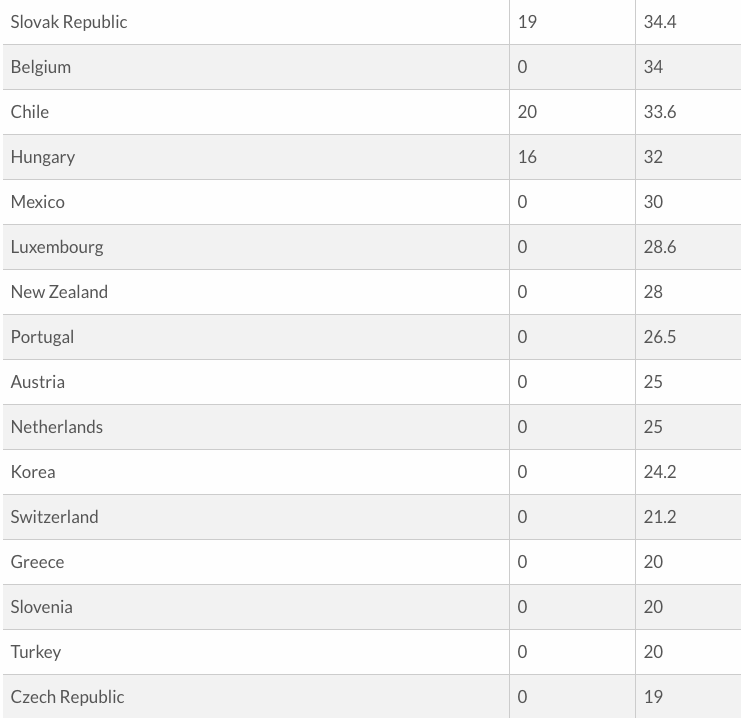
### A2: New Zealand

#### (1 response)

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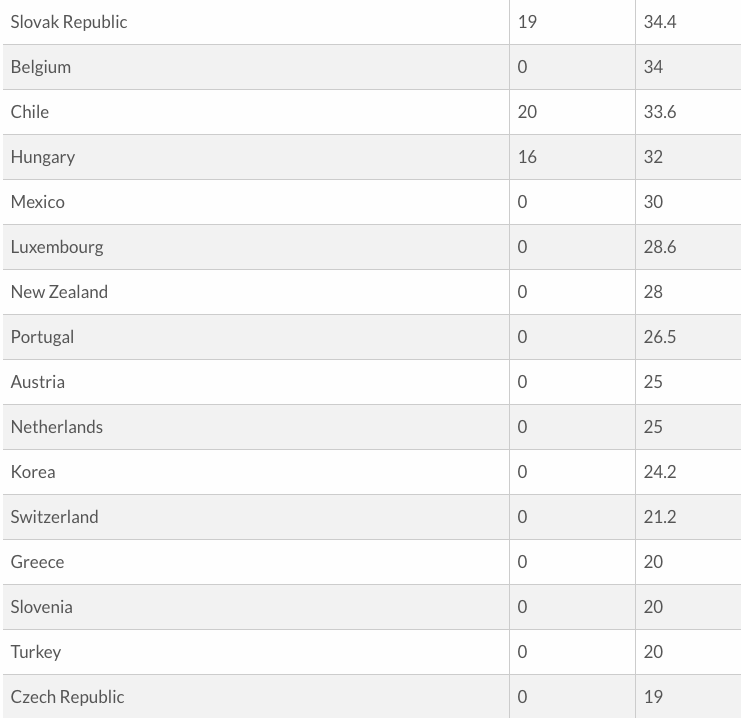
### A2: Portugal

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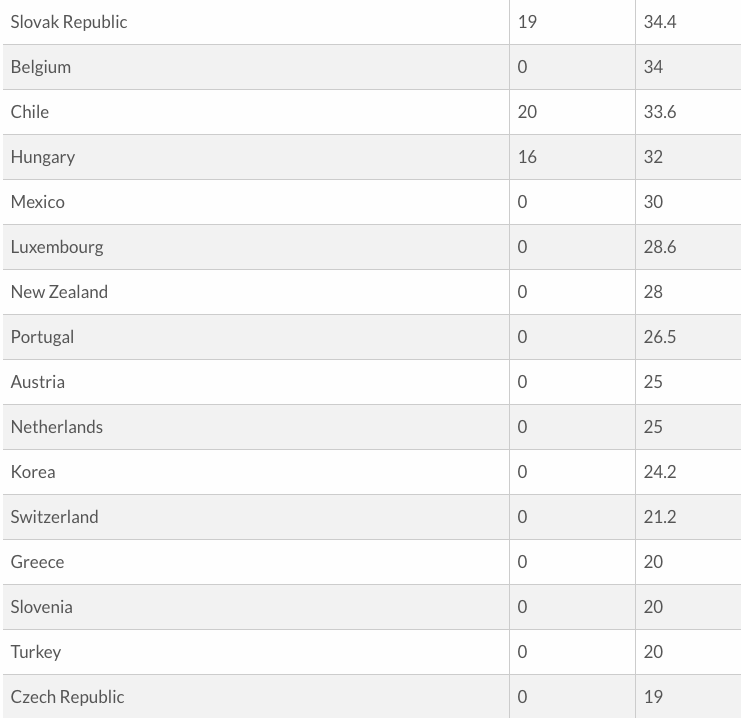
### A2: Austria

#### (1 response)

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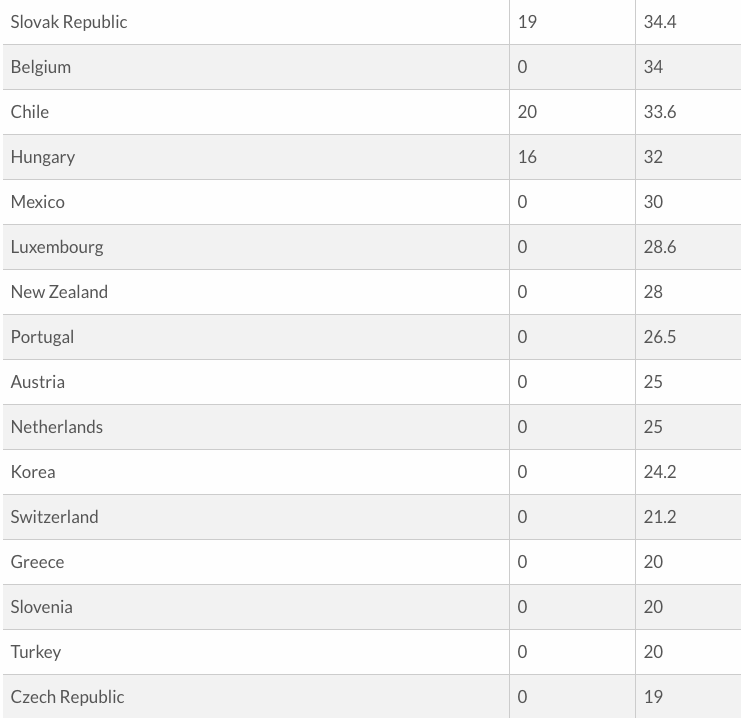
### A2: Netherlands

#### (1 response)

#### 1. Delink, even if Korea doesn’t tax individual capital gains, the Tax Foundation ’11 find that they tax corporate capital gains which are far more influential in economic output. Two implications: 1.) throw out the example because it’s false and 2.) use it against them because it means healthy economic growth can occur with a capital gains tax in place.

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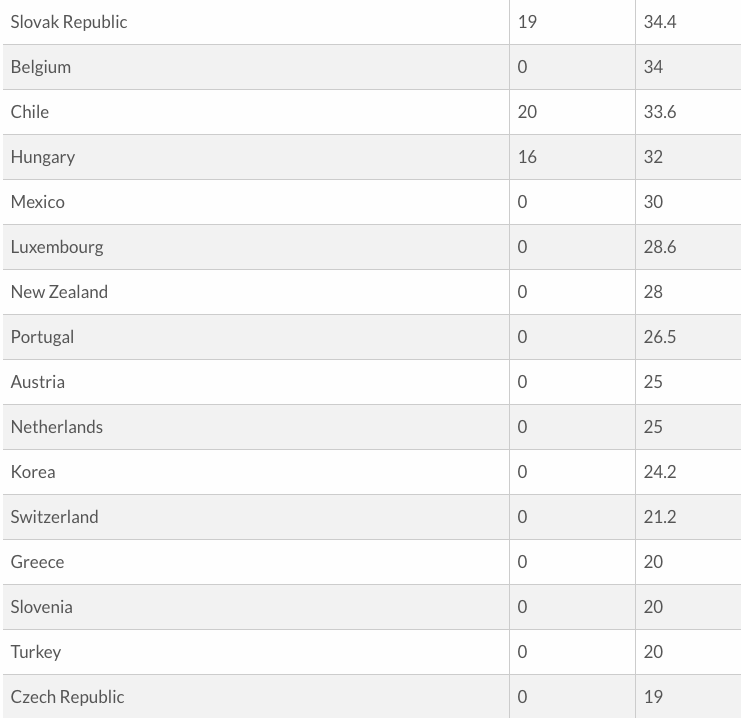
### A2: Korea

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Tax Foundation, 7-6-2012, ["Capital Gains Rate By Country, 2011 (OECD)," https://taxfoundation.org/capital-gains-rate-country-2011-oecd/, DOA: 1-17-2018] // ATA

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### A2: Switzerland

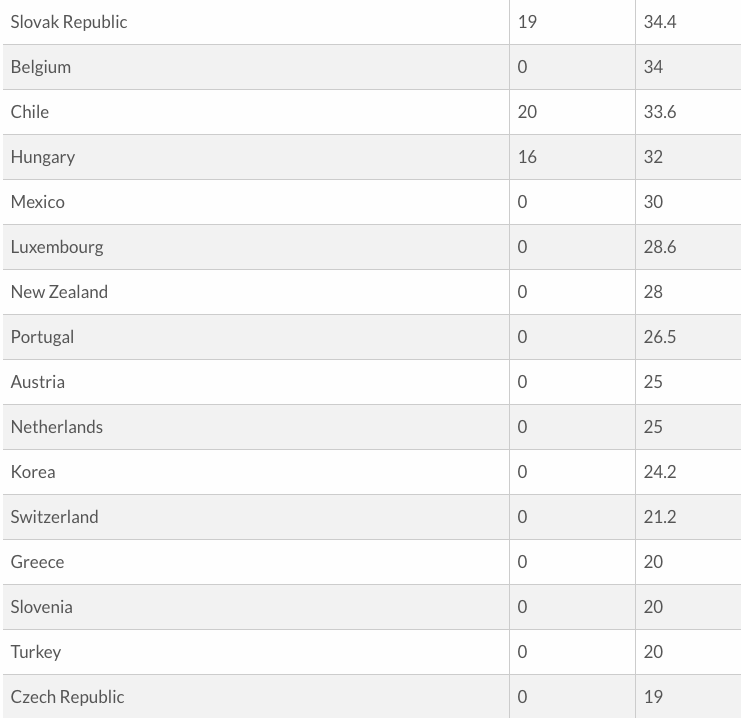
#### (1 response)

#### 1. Delink, even if Switzerland doesn’t tax individual capital gains, the Tax Foundation ’11 find that they tax corporate capital gains which are far more influential in economic output. Two implications: 1.) throw out the example because it’s false and 2.) use it against them because it means healthy economic growth can occur with a capital gains tax in place.

#### 2. Delink, Grubel of the Frasier Institute explains that even though the Federal Government doesn’t tax capital gains, the individual districts do.

Picture:

Tax Foundation, 7-6-2012, ["Capital Gains Rate By Country, 2011 (OECD)," https://taxfoundation.org/capital-gains-rate-country-2011-oecd/, DOA: 1-17-2018] // ATA

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Herbert G. Grubel (is a Senior Fellow at The Fraser Institute, and Professor Emeritus of Economics, Simon Fraser University. He has a B.A. from Rutgers University and a Ph.D. in economics from Yale University. He has taught full-time at Stanford University, the University of Chicago, and the University of Pennsylvania. He has published 16 books and 180 professional articles in economics dealing with international trade and finance and a wide range of economic policy issues), Fraser Institute, 2001, ["International Evidence on the Effects of Having No Capital Gains Taxes," https://www.fraserinstitute.org/sites/default/files/IntlEvidenceNoCapitalGainsTaxSec1.pdf, DOA: 1-17-2018] // ATA

Evidence from Switzerland by Kugler and Lenz It is important, therefore, that the chapter by Peter Kugler and Carlos Lenz (p. 55) presents unique, powerful empirical evidence on the effect the elimination of the capital gains tax has had on income in Switzerland. According to the authors, the federal government of Switzerland does not impose a capital gains tax. However, most cantons in that country have had such taxes for some time but, in recent years, some of these cantons have eliminated the capital gains tax and others retained it. These conditions supply us with a rare opportunity in the social sciences, the equivalent of a controlled experiment. One sample of countries changes one policy while the control group of countries does not, all while other policies and external conditions affecting economic conditions in the country as a whole remain unchanged. Kugler and Lenz calculated the trend in the economic growth rates of all cantons before and after the elimination of the capital gains tax. They then calculated average growth rates for two groups of cantons, one in which capital gains taxes remained unchanged and one in which they were eliminated. They found that the cantons that eliminated the capital gains tax enjoyed an average short-run 2.2% jump in the level of national income relative to the other group of cantons. In the longer run, the jump in income is 3.1%. It is possible that the cantons increased their incomes simply as a result of drawing capital and labour from cantons that had retained the capital gains tax. If this is true, the higher output in the gaining countries is matched by lower output in the losing countries and overall Switzerland is no better off. Moreover, if the argument is true, the process involves the inefficient relocation of the resources and, therefore, an actual reduction in output of all cantons. The authors examined their data for evidence on such shifting of capital and labour and found none. What about the effect of the removal of the capital gains tax on economic growth rates rather than levels? The authors note that the time series available to them is too short to estimate such an effect. In spite of the limitations of the study of the Swiss experience, the results are consistent with so-called “supply-side economics” and its hallmark “Laffer curve.” According to this theory, it is not surprising that the recent tax cuts of Ireland, the United States and the continued low taxes in Hong Kong and Singapore resulted in more rapid economic growth than that experienced in countries with higher levels of taxation. The incentives to working, investment, risk-taking and innovation activated by lower taxes are almost certain to bring higher economic growth. I believe that the available evidence makes a good case for the elimination of the capital gains tax in Canada. However, many economists and politicians argue against this policy because it is seen to have socially adverse effects on the distribution of income and it results in tax avoidance maneuvers as taxpayers attempt to shift taxable income into non-taxable capital gains.

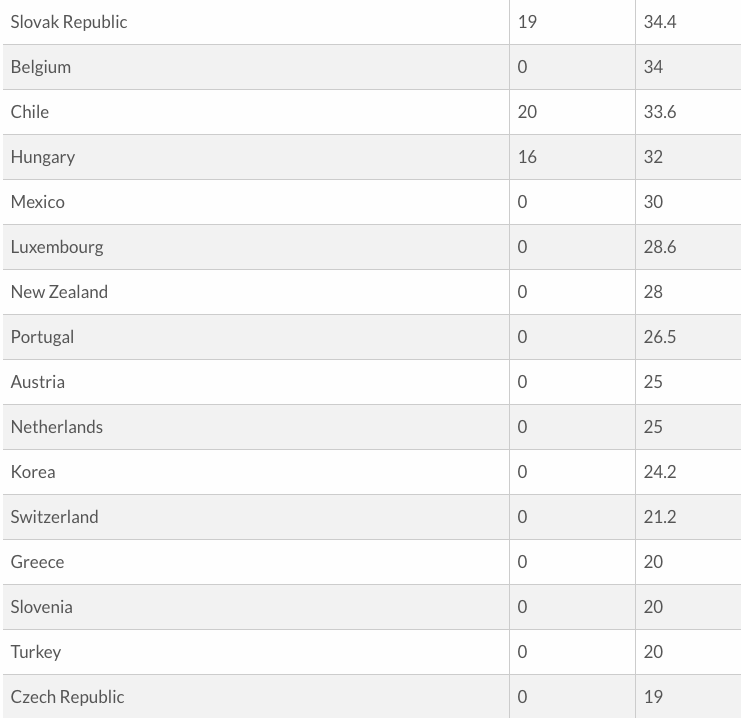
### A2: Greece

#### (1 response)

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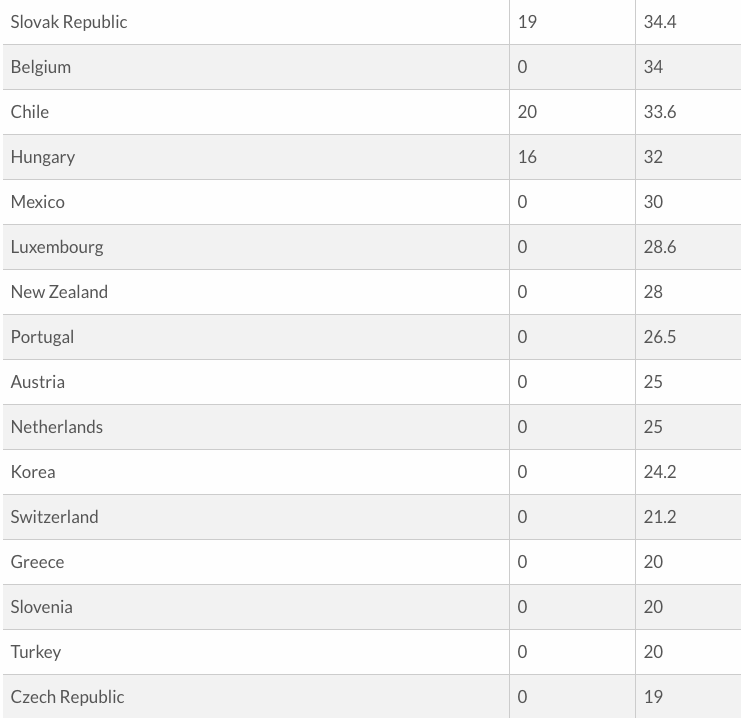
### A2: Slovenia

#### (1 response)

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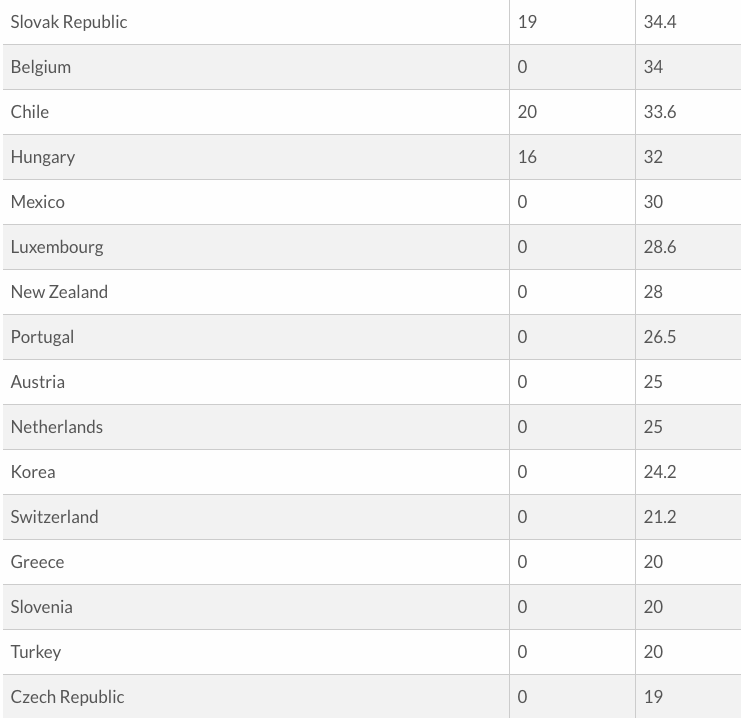
### A2: Turkey

#### (1 response)

#### 1. Delink, even if Turkey doesn’t tax individual capital gains, the Tax Foundation ’11 find that they tax corporate capital gains which are far more influential in economic output. Two implications: 1.) throw out the example because it’s false and 2.) use it against them because it means healthy economic growth can occur with a capital gains tax in place.

Picture:

Tax Foundation, 7-6-2012, ["Capital Gains Rate By Country, 2011 (OECD)," https://taxfoundation.org/capital-gains-rate-country-2011-oecd/, DOA: 1-17-2018] // ATA

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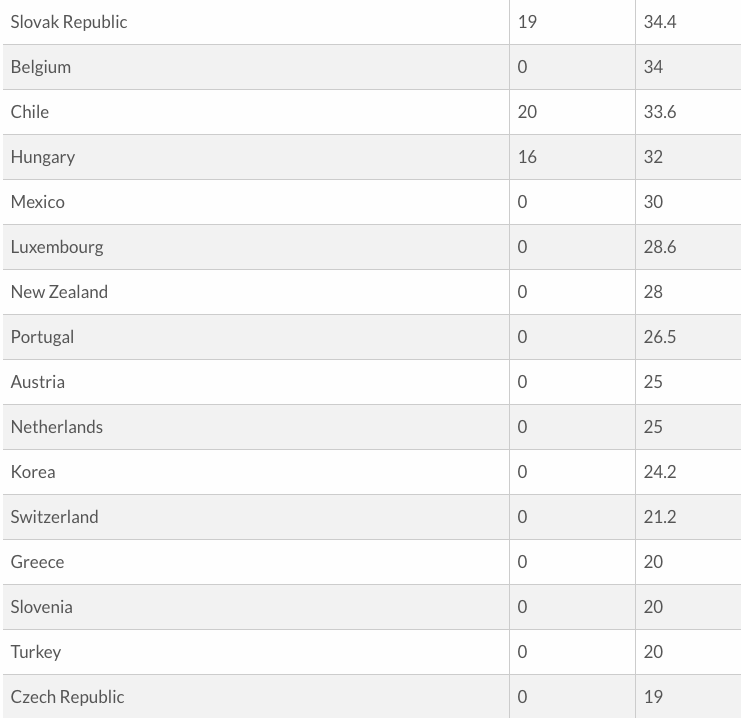
### A2: Czech Republic

#### (1 response)

#### 1. Delink, even if the Czech Republic doesn’t tax individual capital gains, the Tax Foundation ’11 find that they tax corporate capital gains which are far more influential in economic output. Two implications: 1.) throw out the example because it’s false and 2.) use it against them because it means healthy economic growth can occur with a capital gains tax in place.

Picture:

Tax Foundation, 7-6-2012, ["Capital Gains Rate By Country, 2011 (OECD)," https://taxfoundation.org/capital-gains-rate-country-2011-oecd/, DOA: 1-17-2018] // ATA

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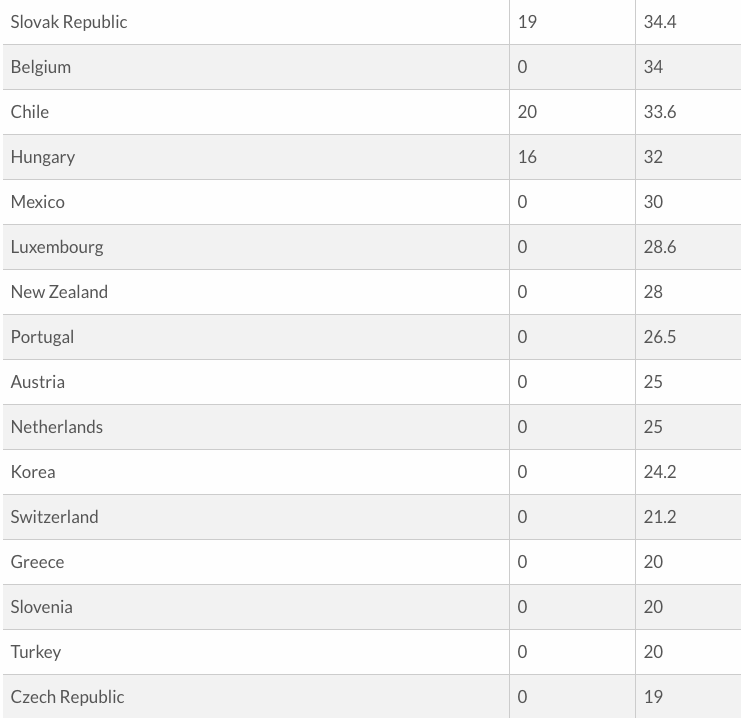
### A2: Belgium

#### (1 response)

#### 1. Delink, even if Mexico doesn’t tax individual capital gains, the Tax Foundation ’11 find that they tax corporate capital gains which are far more influential in economic output. Two implications: 1.) throw out the example because it’s false and 2.) use it against them because it means healthy economic growth can occur with a capital gains tax in place.

Picture:

Tax Foundation, 7-6-2012, ["Capital Gains Rate By Country, 2011 (OECD)," https://taxfoundation.org/capital-gains-rate-country-2011-oecd/, DOA: 1-17-2018] // ATA

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## A2 Inequality

### A2 General

#### **Travis Waldron 13’ finds that a low capital gains tax have been the biggest driver of wealth inequality and have resulted in a 96% growth in inequality for the .1% in the last 20 years. There are 3 reasons**.

#### The income tax, Sanjay Sanghoee 12’ found that the majority of Americans live on paychecks are therefore stuck paying the 35% income tax, in that way the lower capital gains tax has become a form of entitlement for the wealthy who tend to make a majority of their income from Capital Gains.

#### Savings, Chuck Marr 12’ finds that the lower capital gains tax saves the wealthiest .1% 356,000$ a year on average while only saving the middle class 23$, this only gets way worse when you decrease the tax more. Harry Stein 14 finds that the preferential capital gains tax rate has lead to the government forgoing 2trillion$ all of which would have come from the wealthiest Americans.

#### Spillover, Adam Looney 15’ explains that preferential tax on capital gains reduces the effectiveness of the tax system in reducing wealth inequality because lowering the tax on capital gains incentives people to run tax shelters in which they convert income to capital gains in order to avoid paying other taxes. That’s why he concludes that reducing the long-term capital gains rate is the primary reason for the muted effectiveness of the income tax system in reducing wealth inequality

**Travis Waldron**, No Publication, 2-20-2013, ["Capital Gains Tax Cuts ‘By Far’ The Biggest Contributor To Growth In Income Inequality, Study&nbsp;Finds," https://thinkprogress.org/capital-gains-tax-cuts-by-far-the-biggest-contributor-to-growth-in-income-inequality-study-finds-9f7e6b4a8058/, DOA: 1-20-2018] // ZWS

**Changes in tax law that reduced the federal tax rate on capital gains income is “**[**by far the largest contributor**](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2207372)**” to rising income inequality in the United States**, according to a new paper from Thomas Hungerford, an economist at the Congressional Research Service. **Capital gains and other investment income was taxed as regular wage income from 1986 until 1996, when the capital gains rate was reduced. It was further reduced as part of the Bush tax cuts, and over the last decade, it has reversed the equalizing effects of taxes and allowed for massive income gains for the wealthy that translated directly into increased income inequality**: Hungerford’s findings are [similar to a study](http://thinkprogress.org/economy/2012/01/03/396949/cap-gains-income-inequality-study/) he produced for the Congressional Research Service in 2011, which found **that while income grew 25 percent from 1996 to 2006 for all Americans, it grew 74 percent for the top 1 percent and 96 percent for the top 0.1 percent. That study also found that tax cuts on capital gains were the biggest driver of the disparity**. The capital gains rate increased to 20 percent at the beginning of 2013, and top earners will pay an even higher rate because of a surcharge to help pay for Obamacare. Still, the rate remains far lower than the top income tax rate, even as inequality in America is now comparable to countries like [Pakistan and the Ivory Coast](http://thinkprogress.org/politics/2011/05/04/163476/us-unequal-uganda-pakistan/). (HT: [Greg Sargent](http://www.washingtonpost.com/blogs/plum-line/wp/2013/02/20/new-study-badly-undermines-gop-position-on-sequester/)

**Sanjay Sanghoee**, HuffPost, 9-3-2012, ["Inequality: Why the Capital Gains Tax Rate should be Raised," <span class="skimlinks-unlinked">https://www.huffingtonpost.com/sanjay-sanghoee/inequality-why-the-capita\_b\_1851729.html</span>, DOA: 1-20-2018] // ZWS

And finally, there is the issue of fairness. While investment activity may not be limited exclusively to the wealthy anymore, it is still a much bigger source of revenue for the rich than for the middle class, which leads to an imbalance in the tax treatment. **Most Americans live on paychecks and are therefore stuck with paying 35% or more on the bulk of their earnings. In that way, the preferential tax rate on capital gains becomes a form of “entitlement” for the wealthy, and penalizes everyone else**. The actions of companies like Bain Capital that move money around to enjoy lower tax rates further amplifies this inequality, since ordinary citizens and even small businesses simply do not have the means to reduce their taxes via these mechanisms

**Chuck Marr**, Center on Budget and Policy Priorities, 9-19-2012, ["Raising Today’s Low Capital Gains Tax Rates Could Promote Economic Efficiency and Fairness, While Helping Reduce Deficits," https://www.cbpp.org/research/raising-todays-low-capital-gains-tax-rates-could-promote-economic-efficiency-and-fairness, DOA: 1-20-2018] // ZWS

Capital gains are heavily concentrated at the top; the top 1 percent of taxpayers will receive 71 percent of all capital gains in 2012, according to TPC.[[4]](https://www.cbpp.org/research/raising-todays-low-capital-gains-tax-rates-could-promote-economic-efficiency-and-fairness" \l "_ftn4" \o ")  This means that **the benefits of the tax breaks for capital gains flow overwhelmingly to the highest-income taxpayers, while delivering negligible benefits to the large majority of taxpayers**. TPC estimates, for example, **that the benefits of the preferential rates on capital gains and dividends raised the after-tax incomes of the top 0.1 percent of taxpayers by 7.5 percent** — an average of **$356,750** for each such taxpayer in 2011, **while raising after-tax incomes among the middle fifth of households by just 0.1 percent, or an average of $23**

**Adam Looney\* and Kevin B. Moore\*\***, No Publication, 6-5-2015, ["," https://www.federalreserve.gov/econresdata/feds/2015/files/2015058pap.pdf, DOA: 1-20-2018] // ZWS

In this paper, we describe the distribution of tax-deferred assets in the SCF from 1989 to 2013, provide new estimates of the income tax liabilities implicit in those assets, and present new statistics on the level and distribution of after-tax net worth. The results of our analysis suggest that, relative to published statistics on pre-tax net worth, the distribution of after-tax wealth is slightly less concentrated at each point in time and **the effectiveness of the income tax system in reducing wealth inequality has decreased during the last decade. We find the reduction in the long-term capital gains rate is the primary reason for the muted effectiveness of the income tax system in reducing wealth inequality**

**Harry Stein**, Center for American Progress, 6-25-2014, ["How the Government Subsidizes Wealth Inequality," https://www.americanprogress.org/issues/economy/reports/2014/06/25/92656/how-the-government-subsidizes-wealth-inequality/, DOA: 1-20-2018] // ZWS

this issue brief puts aside the question of whether new policies, such as a global wealth tax, should be enacted to reduce economic inequality. Instead, it explores two existing policies that actually subsidize wealth inequality. First, **reduced tax rates on capital gains and dividends increase the after-tax rate of return on wealth, which makes it more likely that the rate of return on capital will exceed the overall economic growth rate**. Second, **capital gains are never subject to the income tax at all if the investor dies, which subsidizes wealth concentration within a family dynasty. These two subsidies will cost the U.S. federal government about $2 trillion over the next 10 years, almost all of which will go to the wealthiest Americans**. Past Congresses have repealed both of these subsidies at different points in time, though they were later revived by subsequent legislation. Recently, tax reform proposals from both sides of the political spectrum have once again advocated scaling back or eliminating these subsidies.

## A2 Harms

### A2 Encourages Innovation

#### Higher tax rates increase the probability of a startup company being successful which increases the chance they create a new innovative technology, Carolin Bock 17’ find that when capital gains tax rates are higher venture capitalists are more selective and do more research, so they are able to identity successful companies during their initial due diligence proves. She concludes that a higher tax burden increases the likely hood of a startup that gets funding being successful.

**Carolin Bock**, TU Darmstadt, 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ZWS

**Venture capitalists seem to be able to pick the companies to invest in more diligently when tax rates are high**. This finding provides some evidence for the question discussed in the literature of whether **venture capitalists are able to identify potentially more successful companies during their initial due diligence process** (Bertoni et al., 2011; Brander et al., 2002; Dimov & Shepherd, 2005; Dimov et al., 2007; Lerner, 1994). The results are corroborated when we analyze venture capital investments in consecutive funding rounds. Companies have a lower probability of receiving further funding rounds when capital gains taxes are high. **However, if the capital gains tax was high at the time of the first funding, the company has a higher probability of receiving funding in consecutive rounds, again pointing at a selection effect**

**Carolin Bock**, TU Darmstadt, 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ZWS

By doing so, **we are able to study the decisions for a sample of 76,852 funding rounds in 32 countries from 2000 to 2012**. Our results support the predictions of the theoretical model that higher capital gains tax rates are associated with fewer startups financed and a lower probability of receiving follow-up funding. **However, the results concerning the effect on the probability of success of start-ups show that a higher tax burden is associated with a higher probability of eventual start-up success.**

### A2 Small Businesses

#### 

#### 1. Turn again. Thomas Hungerford from the Congressional Research Service finds in 2010 that the capital gains tax provides a risk cushion for investments that increases risk-taking. This is key for small businesses to survive.

#### 2. Turn again. Long term investment is what small businesses need to survive, the status quo promotes long term investment. Abolishing the status quo leads to volatility and very short term investment. Small businesses are worse off in our opponents world.

Toder, Eric. [co-director of the Urban-Brookings Tax Policy Center]. “HOW DO WE TAX THE INCOME OF ENTREPRENEURS?”, Tax Policy Center. October 4, 2017.

The tax system can favor entrepreneurial activity in three ways. First, lower tax rates on entrepreneurial income (compared with tax rates on standard earnings )could induce more people to enter entrepreneurial ventures. Second, US tax laws that allow highly successful individuals to earn very high after-tax returns could encourage more talented and ambitious individuals to migrate to the United States. Finally, lower tax rates on capital gains relative to other forms of investment income could attract more financial capital into new ventures, bringing the potential of large capital appreciation instead of safer assets with lower potential returns but less risk.

Thomas L. Hungerford “The Economic Effects of Capital Gains Taxation” Congressional Research Service. 6/18/10. <https://fas.org/sgp/crs/misc/R40411.pdf>“Additionally, for risk adverse investors, the capital gains tax could act as an insurance for risky investments by reducing losses as well as gains—it decreases the variability of returns.16 The $3,000 loss limit may reduce the insurance value of the capital gains tax. But research has shown that almost three-quarters of taxpayers with capital losses were not subject to the loss limit because losses were less than $3,000 or gains offset the losses.17 Of those affected by the loss limit, two-thirds were able to deduct losses against gains or other income within two years. The capital gains tax, therefore, may have little effect on risk-taking and may even encourage it.”

Short term logic deters innovation, means less funding for innovative small businesses because investors don’t care to stick around

Malcolm S. Salter, December 23, 2014, “Why Our Capital Gains Tax Needs Radical Reform,” https://ethics.harvard.edu/blog/why-our-capital-gains-tax-needs-radical-reform, accessed 2/3/2018

It is of course difficult to unravel all the causes of this shift. The excess focus on short-term earnings and stock price referred to above most likely plays a significant role. But so, too, Christensen argues, is the wide spread adoption of financial performance metrics stressing the efficient use of capital in an age of relatively abundant capital. Metrics like return on investment (ROI), return on net assets (RONA), or return on capital employed (ROCE) stress capital efficiency rather than innovation capacity. And, of course, when the internal rate of return (IRR) metric is used, the return naturally goes up as the time horizon comes down. When companies plan investments and keep score according to efficiency measures, they inevitably invite investment decisions where uncertain, empowering innovations requiring long lead times for development are sacrificed for more certain efficiency innovations requiring much shorter time horizons for profitable results.

A few publicly owned companies—such as Intel, Amazon, and Apple—have managed to resist this short-term bias and investment myopia, even when disappointing earnings have battered their stock prices. However, the commitment of many public companies to empowering innovations has weakened in recent decades—even broken down—as corporate executives have become increasingly reliant on efficiency-based performance measures and as fund managers and executives alike have become preoccupied with near term earnings. Knowing that beating the next quarter’s earnings expectations by as little as a penny can boost a company’s stock price, or avoid a sharp price decline, executives have strong incentives to curb or minimize long-term investments in empowering technologies.

Short term thinking destroys trust – especially detrimental to small business who require long term investors

Malcolm S. Salter, December 23, 2014, “Why Our Capital Gains Tax Needs Radical Reform,” https://ethics.harvard.edu/blog/why-our-capital-gains-tax-needs-radical-reform, accessed 2/3/2018

The link between short-termism and trust-destroying institutional behavior is fairly intuitive: the shorter the time period for measuring individual and organizational performance, and the larger the rewards and penalties directly tied to these short-term measures, and, finally, the weaker the accountability for long-term adverse consequences, the greater the incentive for executives to seek short-term rewards by gaming society’s rules, tolerating conflicts of interest, and violating common decency or other standards of fair conduct. Similarly, when financial rewards based on the short-term performance of a transaction or business strategy dwarf the personal risks involved, a huge incentive is created for executives to pursue immediate personal gain—even when the their companies’ reputation is placed at risk.

### A2 Housing

#### 1. Mitigate, Wathen ‘17 of the Motley Fool explains that the first 250 to 500,000 dollars in capital gains from of selling a house is exempt and thus, doesn’t impact middle America. Thus, most homeowners don’t hike their prices to compensate.

#### 2. The Wellington Tax Group 09’ find that’s that not taxing capital gains will increase the value of properties by making the prospect of holding land more attractive since people will no longer have to pay taxes on its value.

Cards:

Jordan Wathen (University of Southern Indiana), Motley Fool, 1-13-2017, ["5 Things to Know About Capital Gains Tax," https://www.fool.com/retirement/2017/01/13/5-things-to-know-about-capital-gains-tax.aspx, DOA: 1-17-2018] // ATA

2. Capital gains tax is the only voluntary tax If you earn an income, you have to pay income taxes. When it comes to capital gains, you decide when they become taxable. Suppose you buy a stock for $20 per share. Several years later, the business has performed spectacularly, and shares now trade for $100 each. You have a capital gain of $80 per share, but you don't have to pay taxes on that gain until you sell. Legendary investor Warren Buffett has famously used tax law to his favor by holding his winners forever, pushing off any taxes on the gains. For most investments, you hold the ultimate decision on when you should pay a capital gains tax by deciding when to realize the gain by selling at a profit. 3. Real estate may be exempt from capital gains tax Some capital gains can be earned and realized tax free. When you own your own home, you might be able to avoid paying taxes on its appreciation when you sell it. The first $250,000 of capital gains on your home is tax-free for single people, and increases to $500,000 for married couples who file taxes jointly. You just have to meet some simple requirements. First, the home has to be your primary residence. Secondly, you must have owned your home for at least two years, and you must have lived in the home for at least two of the last five years. In other words, most people who own their own home and live in it like, you know, normal people, can avoid capital gains taxes on its appreciation over time. 4. Capital losses can offset capital gains Many investors use a trick known as "tax loss harvesting" to realize capital losses at the same time they realize capital gains. For example, suppose you own two stocks, one with a $10,000 gain and one with a $10,000 loss. You want to realize the gain on the winner, but you aren't too eager to pay the taxes on your gain. That's understandable. In some cases, it may make sense to sell both stocks, realize the $10,000 gain on one, and the $10,000 loss on the other, and thus report $0 in net capital gains. Losses in excess of your gains can be particularly valuable. You can deduct up to $3,000 of capital losses in excess of gains against ordinary income each year. Ordinary income is taxed at a higher rate than capital gains, so the tax savings are even larger.

**Wellington Tax Group**, Victoria University, No Publication, 2009, ["," https://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/twg/publications/3-taxation-of-capital-gains-ird\_treasury.pdf, DOA: 1-17-2018] // ZWS

Subject to one qualification, **failure to tax gains on land will lead to higher land price**s but this will not have direct effects on deadweight loss because land is in fixed supply. **The qualification is that there may be some tax-induced bias as to who holds land with the lack of a tax on accruing gains meaning that this is an attractive asset for those on higher tax rates to acquire. It can thus produce a bias in who owns land**. But it will not distort how land is used.

**Wellington Tax Group**, Victoria University, No Publication, 2009, ["," https://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/twg/publications/3-taxation-of-capital-gains-ird\_treasury.pdf, DOA: 1-17-2018] // ZWS

There is, however, another issue which may impact on GDP and growth. **The absence of a capital gains tax will tend to increase land prices which may lead to more savings being absorbed by property assets than would otherwise be the case**. A benefit that Treasury would see in subjecting real property **to [a] capital gains tax is that this would reduce property values which might increase savings available to be invested in productive** New Zealand **businesses**

### A2 New Investors

#### Investopedia 17’ reports that 2/3rds of tax payers pay no capital gains on their taxes, meaning that after affirming the majority of Americans see no difference. This should mean that if there were going to be middle class investors they would already exist.

**Investopedia Staff**, Investopedia, 9-13-2017, ["Capital Gains Tax," https://www.investopedia.com/terms/c/capital\_gains\_tax.asp, DOA: 1-14-2018] // ZWS

**The** [Internal Revenue Service (**IRS**)](https://www.investopedia.com/terms/i/irs.asp) **taxes** [**long-term capital gains**](https://www.investopedia.com/terms/l/long-term_capital_gain_loss.asp) (that is, on [assets](https://www.investopedia.com/terms/a/asset.asp) held more than a year) at different rates than other types of [income](https://www.investopedia.com/terms/i/income.asp)**. Under the** [**Tax Increase Prevention and Reconciliation Act of 2005**](https://www.investopedia.com/terms/t/tipra2005.asp) **(TIPRA) passed by Congress in May 2006, U.S. taxpayers in the two lowest** [**tax brackets**](https://www.investopedia.com/terms/t/taxbracket.asp) **(which account for about two-thirds of all** [**individual tax returns**](https://www.investopedia.com/terms/i/individual-tax-return.asp)**) pay no capital gains taxes**. **Those in the 25%-and-higher tax brackets pay a 15% rate on their capital gains; those in the top 39.6% bracket pay 20%. However, certain net capital gains are subject to a 25% to 28% tax rate, if they are from** [**depreciated**](https://www.investopedia.com/terms/d/depreciation.asp)[**real estate**](https://www.investopedia.com/terms/r/realestate.asp) **or from** [**collectibles**](https://www.investopedia.com/terms/c/collectible.asp). **The capital gains tax rate for** [**short-term capital gains**](https://www.investopedia.com/terms/s/short-term-gain.asp) **(on assets held under a year) is usually the same as the tax rate on** [**earned income**](https://www.investopedia.com/terms/e/earnedincome.asp) **or other types of** [**ordinary income**](https://www.investopedia.com/terms/o/ordinaryincome.asp). The same rules apply for long and short-term losses respectively. Though they can both represent a [profit](https://www.investopedia.com/terms/p/profit.asp), capital gains, which result from selling an asset, aren't the same as [dividends](https://www.investopedia.com/terms/d/dividend.asp) paid by an asset. In the U.S., dividends are taxed as ordinary income, for taxpayers in 15% and higher tax brackets.

### A2 Harms Timber

#### 1. Turn- If done right, timber may be classified as capital gains instead of income. Smallidge ‘15 of Cornell finds that classifying timber as capital gains saves up to 20% because farmers can avoid paying the higher income tax. Problematically, abolishing the capital gains tax means tiber gets taxed at the higher rate.

Peter Smallidge, Cornell, 2015 “Financial Implications of Selling Timber” //JN http://smallfarms.cornell.edu/2015/07/06/financial-timber/

The method of disposal of the timber has significant bearing on your tax obligation. If you qualify for capital gains, you may save 5% to 20% on revenue taxes over landowners who treat revenue from timber sales as ordinary income. Retired forest owners benefit from capital gains provisions because this revenue does not count towards the amount of income they can earn before their Social Security benefits are reduced. Trees sold on a percentage method are taxed at ordinary income rates and may also require payment of self-employment tax, owners may be held for worker’s compensation insurance, and as noted above may reduce Social Security benefits. There are few if any motivations for most private forest owners to sell trees roadside or through the provisions of section 631(a) because of the loss of capital gains treatments or the complexity of the provisions.

### A2 Harms Farmers

#### 1. First. According to Jayson Lusk of the New York Times in 2016, large industrial farms are actually far better at stopping soil erosion and protecting the environment for multiple reasons.

#### A) Large, industrial farms have the money to buy better technology for fighting environmental damages. For example, farmers use iot technology that tracks fertilizer and water usage which makes them use their resources far more efficiently than small farms.

#### B) Industrial farms can afford and tend to use herbicide resistant crops that make it so they don’t have to till the soil, which allows them to prevent soil erosion.

#### C) Industrial farms utilize genetically modified crops that can fix nitrogen retaining soil health.

#### Lusk quantifies that these industrial farming practices have actually decreased soil erosion by 40% since the 1980s.

#### 2. Second, according to Hopkinson of Politico Magazine, large farms are organizing together to adopt better soil management practices. In 2014 large farms like Monsanto and the NCGA joined forces to research, develop, and implement more soil health practices.

#### 3. Data from the US Department of Agriculture finds that 97% of farms in the status quo are family-owned, and 88% of all US farms are small family farms. Small farms are doing fine in the status quo.

No Author, 3-17-2015, "Family Farms are the Focus of New Agriculture Census Data,"USDA, https://www.usda.gov/media/press-releases/2015/03/17/family-farms-are-focus-new-agriculture-census-data, //RP The *2012 Census of Agriculture Farm Typology* report is a special data series that primarily focuses on the "family farm." By definition, a family farm is any farm where the majority of the business is owned by the operator and individuals related to the operator, including through blood, marriage, or adoption. Key highlights from the report include the following five facts about family farms in the United States: Five Facts to Know about Family Farms 1. ***Food equals family*** – 97 percent of the 2.1 million farms in the United States are family-owned operations. 2. ***Small business matters*** – 88 percent of all U.S. farms are small family farms.

### A2 Harms Cryptocurrency

#### Delink- Sharma ‘18 of Investopedia reports bitcoin drops are a mystery with two possible causes:

#### The threat of government crackdown

#### Decreased trade with China and South Korea

#### Insofar as these are external, uncontrollable, and inevitable factors -- abolishing doesn’t solve

#### Impact Turn Time

#### Fallvigne of the PIA 2017 reports that Bitcoin is controlled by code. This destroys current economic systems in three ways.

#### First, they make banks obsolete, as they can’t regulate money.

#### Second, due to the lack of a central bank, governments can’t control the flow of money and react to changes in the economy through monetary policy.

#### Third, the government wouldn't be able to collect taxes without consent, thus decreasing tax revenues.

#### Garett of Forbes Magazine 2017 reports that Bitcoin has bad liquidity. This makes investment difficult. Garett furthers that Bitcoin has security issues in the form of hacks, compared to the gold standard.

#### O’Brien of The Atlantic 2013 notes that the artificial scarcity of Bitcoin leads to inflation. If prices had been set in terms of Bitcoin, they would have had to fallen ten times more during the great depression.

#### Williams ‘13 of Business Insider finds that bitcoin has massive price volatility, changing up to 30% in a day. Problematically, if bitcoin rose in popularity, its uncertainty would stunt both economic growth and trade. .

#### Carney ‘13 notes that back when bitcoin’s value was $1,000 per coin (it’s over 10 times that now) it’s carbon footprint was 8.25 megatonnes, equivalent to the whole nation of Cyprus.

Rakesh Sharma, 18 January 2018, Investopedia, “Bitcoin Price Recovers But Analysts Forecast Another Decline” //JN

https://www.investopedia.com/news/bitcoin-price-recovers-analysts-forecast-another-decline/

As with most things **bitcoin**, the reason for a **plunge** in market valuations **is still a mystery**. According to some reports, **the threat of a government crackdown caused a panicked selloff among traders. Others point to a decline in trading volumes from South Korea and China as a reason**. (Incidentally, exchanges based in Asia accounted for a majority of bitcoin trades this morning). The closing down of Bitconnect, an exchange that was criticized by prominent members of the bitcoin community earlier, for more than 24 hours is also being held up as a reason for the change in traders outlook regarding cryptocurrencies. But that might be a red herring since volumes at BitConnect are a fraction of overall cryptocurrency trading numbers. “We get selloffs like this fairly regularly,” [said](https://www.bloomberg.com/news/articles/2018-01-17/bitcoin-steadies-from-26-slump-as-traders-brave-volatility) Joe Van Heck, managing partner at Grace Hall trading. “Great time to evaluate which of these coins have staying power, actually have utility going forward, and invest in those.”

MARK T. WILLIAMS, DEC. 17, 2013, 5:18 PM (Williams, teaches finance at Boston University School of Management, former Federal Reserve bank examiner and commodities trading floor senior executive.) “FINANCE PROFESSOR: Bitcoin Will Crash To $10 By Mid-2014” Read more: [http://www.businessinsider.com/williams-bitcoin-meltdown-10-2013-12#ixzz3Iho0311d](http://www.businessinsider.com/williams-bitcoin-meltdown-10-2013-12) ableist-edited

And from January to December 2013, markets obeyed with prices rising over 8,000 percent. In the mist of this hype, it appeared that the Bitcoin Revolution was on its way to transforming the economy, putting central bankers out of work and minting new e-currency millionaires daily. Bitcoin was priced for perfection. This past week, however, the market didn’t stick to the script. Instead it began to challenge the rhetoric, knocking prices down as low as $535, a drop of about 55 percent from recent highs. The market has finally realized that *hype alone cannot support lofty prices*. Bitcoin is not a legitimate currency but simply a risky virtual commodity bet.¶ Flawed DNA¶ Since inception, **Bitcoin has** had a ***flawed DNA***. It was dreamed up in a virtual world -- by computer geeks -- but was to be applied in the real world. Bitcoin is **steep in Libertarian** and anti-Fed **dogma but *weak* in understanding** of **how global economics, central banking** policies **and financial markets function. The *lifeblood* of the *global capital markets* is** money – greenbacks -- transactional ***currency*** that facilitates commerce. **Virtual currency** can create value and efficiency but it ***needs to be linked to fiscal and monetary policy.* To assume currency can** be computer generated, **run** in a decentralized manner and **outside of** the **central banking** system and controls **is *farcical* and *economically dangerous.****¶* **For currency to be adopted** as a medium of exchange **there has to be trust in the ability to honor the *underlying obligation* and the ability for central banking policy to control inflation.** Historically the *Fed* has done a *remarkable job* maintain an average inflation rate of no greater than 2.5 percent. Given that *two-thirds of U.S.* ***GDP is driven by consumption, price stability in currency is essential*. Without it, GDP** growth is retarded [*stagnates*] and standard of living shrinks. ¶ Even from a *basic operational standpoint* there are major flaws in Bitcoin structure. For example, it is assumed that miners will behave in a responsible way and not game the system for greater financial reward. Ignored is the human element and need for controls to keep pace as increases in market prices increase incentives to cheat. Fraud is also on the rise. Recently reported was that **$*220 million* in Bitcoins were stolen and not recovered (Business Insider, 12/4/13).¶ Meantime, the *inherent secrecy* of coin ownership decreases the ability to *prevent* and potentially solve *crimes***. There is also little legal protection for investors and significant financial risk if an owner’s hard drive gets corrupted, the computer is stolen or lost, rendering Bitcoin Wallets permanently lost. Should transfer instructions be incorrect and payments credited to a wrong account, Bitcoin transfers are not easily reversible. Moreover, the Bitcoin authenticity process also takes time which is not conducive to high volume retail sales where customers want to get in, pay for their goods and get out with no delay. In contrast, storeowners will be hesitant to have customers walk out the door with product, especially if authenticity process is not completed.¶ Unfit as a Currency¶ Bitcoin *lacks* the essential attributes that are needed to support a widely recognized transactional currency. ***If Bitcoin was allowed to proliferate*** as a currency it **would produce *greater economic uncertainty*, reduced *trade*** and lower *individual standard of living.¶* Bitcoin has not taken off as a transactional currency and is further undermined by the fact that *the majority of* ***Bitcoin owners hoard e-coins*. The more hoarded the less available to** buy goods and services and **spur** economic **growth**.¶ In Bitcoin World it is not uncommon for **prices** to **change b**y 20 or *3****0 percent* in a** given *day*, making Bitcoin *toxic* to economic growth. Price swings produce conflicting behavior. Retailers work on *tight margins*, sometimes as low as 10 percent. Such *daily price fluctuations* would *eliminate* all *profit* and inflict needless losses. Unless retailers want to be in the commodity trading business, they would not be interested in taking Bitcoin risk. At restaurants, Bitcoiners expecting coin values to drop might rush to pay for dinner even before the first entree arrives while restaurateurs would be motivated to delay payment until the drop occurred. If Bitcoin owners believe value would increase, they would hoard more coins and velocity of money would decline, *harming economic growth.¶* In this Bitcoin World of currency uncertainty, guessing and risk, *commerce would decline* and bartering would increase. Naturally, as Bitcoin price swings increased, the number of businesses willing to accept e-currency risk would decline. This is why in recent weeks, as large price movements have occurred, we have seen more credible retailers saying “No” to Bitcoin. ¶ High-Risk Commodity¶ *Bitcoin has been trading like an out-of-control rollercoaster* with price movements in 2013 climbing from $13 to $1,200 and then in only a week, careening down to a low of $535. This high-test virtual commodity has *8 times* the volatility of the S&P 500 and presents *significant liquidity risk*. There are now over 12 million Bitcoins outstanding. This volume of ownership has not been *bear-market* tested and if enough sellers try to run for the door it is not clear that existing infrastructure is capable of *executing trade orders* without significant *time delays* and *price risk*. ¶ The buying and selling of Bitcoin is also controlled by only a handful of exchanges in places like China, Slovenia and Bulgaria. These exchanges are based on a peer-to-peer model and regulation is light with price disparities between exchanges commonplace. Exchange bankruptcies are not uncommon. In November, GBL, a Hong Kong based Bitcoin exchange closed it’s doors, costing investors over $4 million. As a virtual commodity, it is a high-risk bet in a wild-west atmosphere, requiring speculators to stay cautiously alert.

Michael Carney\_Michael Carney is a West Coast Editor at PandoDaily, covering venture capital, financial technologies, ecommerce, on-demand services, and the future of television, among other subjects. PandoDaily BY MICHAEL CARNEY ON DECEMBER 16, 2013 “Bitcoin has a dark side: its carbon footprint” http://pando.com/2013/12/16/bitcoin-has-a-dark-side-its-carbon-footprint/

Bitcoin may be making a few people wealthy, but *it’s killing us all*. The crypto-currency that’s caught the world by storm has a dark side: its carbon footprint.¶ At *today’s* value of roughly $1,000 per bitcoin, the electricity consumed by the bitcoin mining ecosystem has an estimated carbon footprint – or total greenhouse gas emissions – *of 8.25 megatonnes* (8,250,000 tonnes) of CO2 per year, according to research by Bitcarbon.org. That’s 0.03 percent of the world’s total greenhouse gas output, or *equivalent to that of the nation of Cyprus.* If bitcoin’s value reaches $100,000, that impact will reach *3 percent* of the world’s total, or that of *Germany*. At $1 million – which seems farcical but which may *not* be *out of the realm of possibility* given the artificially limited bitcoin supply – this impact rises to *8.25 gigatonnes,* or *30 percent* of today’s *global output*, and *equivalent to that of China and Japan combined*.¶ Bitcoins aren’t mined from the earth’s crust like most physical commodities – although at least that leaves tangible evidence of its environmental impact. Rather, they are “mined” by computers solving a set of complicated computational problems. These problems are designed to get more difficult over time, until the year 2140 when the 21 millionth (and final) bitcoin is mined. Early in bitcoin’s existence, it was feasible to run a successful mining operation with a standard PC. Now the task requires custom mining rigs that can run orders of magnitude more processes per second.¶ The top of the line model, which is currently made by a Swedish company called KnCMiner, costs around $13,000 and can mine at a rate 550 gigahashes per second: They’ve sold $28 million worth, and soon these too will be obsolete. The total computational power of the global bitcoin mining network today is more than *seven million gigahashes, and climbing*. That’s *256 times* greater than the world’s *top 500 supercomputers, combined.¶* These computers are consuming so much electricity that it’s *already unprofitable* to mine in some regions of the world. According to Blockchain.info the total electricity cost of all mining acticity conducted over the last 24 hours was $19,652,986.38, as the system consumed 131,019.91 megawatt hours. In April, Bloomberg Sustainability called bitcoin mining it a “*real-world environmental disaster.*” At the time, the system was consuming just 7,000 megawatt hours per day – things have increased 142-fold in the last eight months.¶ Bitcoin’s brilliance may also be its downfall. The entire system is built on a “proof of work” algorithm in which miners race to find the simplest and shortest piece of data to represent the ever-growing bitcoin transaction record, or blockchain. Proof of work solves the biggest challenge facing all preceding cryptocurrencies: How do you build a financial system among distributed nodes without trusted centralized clearinghouse, aka a bank? Chris Dixon recently noted that this problem, which is called the byzantine generals problem in computer science, was previously thought to be impossible.¶ The answer to this problem, it turns out, was to pay miners a non-trivial amount to solve these problems and thus verify each block of bitcoin transactions. With enough miners, the system rolls on. But invisible to the naked eye, so does the massive carbon output. In fact, the cost of electricity is a systemic design consideration that bitcoin’s creators realized would regulate the pace at which bitcoins were mined. The thinking goes that as computers get more powerful, per Moore’s Law, the cost of mining bitcoin will fall back into reason – and then the race will begin again in earnest.¶ The exact carbon footprint of the bitcoin system is unknown. The above Bitcarbon figures are mere estimates based on several simplistic assumptions. First, the calculation assumes that miners will be willing to spend 90 percent of the value of a single bitcoin to mine it. This could be a gross underestimate if miners are willing to bet on appreciation. Second, these figures are based on the assumption that 50 percent of all mining activity takes place in the US and 50 percent in China. This is a deliberate oversimplification for arriving at a reasonable estimate of the blended cost and carbon output of first-world and second/third-world mining activities. It also raises the interesting point that, from an environmental perspective, not all bitcoins are created equal. Chinese bitcoins are “dirtier,” yet less expensive economically to produce than those mined in the US.

**Rick Fallvigne 2017, P.I.A.**

https://www.privateinternetaccess.com/blog/2017/02/how-cryptocurrency-will-cripple-todays-governments-and-they-wont-see-it-coming/

Now, governments love anything that smells like innovation, because it means jobs, this magic word that smells of magic unicorns to anybody in government. Therefore, people who like innovation are nurturing this bitcoin thing, this cryptocurrency thing, this ethereum thing (as if governments made a difference, but still). Lots of startups in tip-of-the-spear financial technology means that their government may get a head start over other governments. They have no idea that cryptocurrency will radically scale back the power of government, not just their own one, but also all those other governments over which it seeks a competitive edge.

Individual people in government can also love bitcoin because it gives them something to do. More specifically, it gives them something to regulate. Fortunately, other people in government see that this gives them something to do, which is to hold those government regulators with an overdeveloped sense of order somewhat in check. You’ll hear no shortage of wannabe regulators saying that “bitcoin is bad because it’s being used in crime and contraband trade!”, to which I usually respond, “well, bitcoin is a currency, so I mean you put it in relation to the US Dollar, which then… is not used in crime and contraband trade, is this the argument you’re using to support your position?”, at which point the discussion generally changes topic.

This completely disregards the observation that bitcoin and cryptocurrency were designed to not submit to regulation in the first place. Well, at least not governmental regulation. It is heavily regulated – but by its source code, and by its source code alone. The reason this will cripple today’s governments — today’s idea of what a government is and does — is because today’s economy is built on one layer doing actual work and three layers of abstraction on top. At the first and bottom layer of our economy are the individual people doing all the actual work. The second layer on top of the first is the abstraction we call corporations, which is a way to organize our economy and optimize transaction costs. The third layer on top of the second would be banks, which handle money for corporations and individual people in a middleman gatekeeper position. Finally, the fourth layer is the government, which takes advantage of the banks’ gatekeeper position to siphon off taxes from money flows in order to fund itself and governmental services. In other words, layer four completely depends on layer three for its operations – or at least for the relative simplicity of funding its operations. Now, ***what bitcoin and cryptocurrency do is make away with the banks – cutting them out of the loop entirely, making them redundant, obsolete, dinosaurified. This resulting absence of anything where banks used to be creates an air gap between the functional part of the economy – people and corporations – and governments who want funding.*** The way governments want to tap all money flows in order to fund itself is not entirely unlike how the surveillance agencies want to tap all information flows in order to have an information advantage. In this way, ***the deployment of cryptocurrency is to tax collection what deployment of end-to-end encryption is to mass surveillance. The government can no longer reach into money flows and grab what it wants, but will be dependent on people actively sending it money***. The government can’t point a gun at a computer and have it give up its money; you can only make a computer operator feel very sorry for not voluntarily producing the keys to that money. So ***the government is no longer able to collect taxes without the consent – even if coerced and forced consent – of the people being thus collected.***

**Matthew O’Brien 2013, The Atlantic**

https://www.theatlantic.com/business/archive/2013/12/why-bitcoin-will-never-be-a-currency-in-2-charts/282364/

***When prices fall, people put off buying things. And when people put off buying things, companies put off investing. And then the economy slumps—and keeps slumping.*** Even worse, people are stuck trying to pay back debts that don't fall with wages that do. So bankruptcies pile up, and so do bank losses. That makes people too scared to borrow, and banks too scared to lend, which only makes prices fall even more.

This self-perpetuating cycle of doom is what sunk the global economy in the 1930s, and what, to a lesser extent, has sunk Japan since the 1990s. And it's what has been sinking us since 2008, though this time central banks have at least kept prices from falling, just barely.

Now, it doesn't make much sense, but there's actually a currency designed to create these kind of economic calamities. A currency designed for deflation. That's Bitcoin, the virtual currency you can theoretically use to buy things online. See, ***there's a predetermined number of bitcoins that will only grow at a low rate until 2040—and then stop. This artificial scarcity means that the dollar value of a bitcoin should go up considerably. And it has.*** In just the last year, it's gone up something like 64 times. That's enough that "[Bitcoin millionaires](http://www.cnbc.com/id/101237537)" are now a thing. Of course, ***a stronger Bitcoin is just another way of saying*** that things cost less in terms of Bitcoin. In other words, ***there's Bitcoin deflation.*** Just how much? Well, as you can see below, [***Peter Coy***](http://www.businessweek.com/articles/2013-12-12/the-bitcoin-consumer-price-index-shows-massive-deflation#r=read) ***calculates that prices would have had to fall 98.5 percent*** the past year ***if they had been set in terms of Bitcoin. As point of comparison, prices fell about 10 percent a year during the worst of the Great Depression.***But prices aren't set in terms of Bitcoin. They're set in terms of dollars. So it doesn't hurt the real economy when the price of Bitcoin goes up. People just go on living their lives, [mostly unaware](https://www.theatlantic.com/technology/archive/2013/12/6-of-americans-think-bitcoin-is-an-xbox-game/282325/) of the virtual currency. But it does hurt the Bitcoin economy, such as it is, when the price of Bitcoin goes up. Why would anyone use their bitcoins to buy things when those bitcoins might double in value in a day—or hour—or two?

**Olivier Garett 17, Forbes**

https://www.forbes.com/sites/oliviergarret/2017/10/26/all-the-reasons-cryptocurrencies-will-never-replace-gold-as-your-financial-hedge/#718d8bdb380e

***An asset is only valuable if other people are willing to trade it in return for goods, services, or other assets. Gold is one of the most liquid assets in existence.*** You can convert it into cash on the spot, and its value is not bound by national borders. ***Gold is gold—anywhere you travel in the world, you can exchange gold for whatever the local currency is. The same cannot be said about cryptocurrencies.*** While they’re being accepted in more and more places, broad, ***mainstream acceptance is still a long way off.*** What makes gold so liquid is the immense size of its market. ***The larger the market for an asset, the more liquid it is. According to the World Gold Council, the total value*** of all gold ever mined ***is about $7.8 trillion. By comparison, the total size of the cryptocurrency market stands at about*** [***$161 billion***](http://www.hardassetsalliance.com/go/v37rq5/for) ***as of this writing — and that market cap is split among 1,170 different cryptocurrencies.***

***That’s a long shot from becoming as liquid and widely accepted as gold.*** Many Wall Street veterans compare the current rise of cryptocurrencies to the Internet in the early 1990s. Most stocks that had risen in the first wave of the Internet craze were wiped out after the burst of the dot-com bubble in 2000. The crash, in turn, gave rise to more sustainable Internet companies like Google and Amazon, which thrive to this day. The same will probably happen with cryptocurrencies. Most of them will get wiped out in the first serious correction. Only a few will become the standard, and nobody knows which ones at this point. And if major countries like the US jump in and create their own digital currency, they will likely make competing “private” currencies illegal. This is no different from how privately issued banknotes are illegal (although they were legal during the Free Banking Era of 1837–1863). So while it’s likely that cryptocurrencies will still be around years from now, the question is, which ones? There is no need for such guesswork when it comes to gold. ***Security is a major drawback facing the cryptocurrency community. It seems that every other month, there is some news of a major hack involving a Bitcoin exchange.*** In the past few months, the relatively new cryptocurrency Ether has been [a target for hackers](http://www.hardassetsalliance.com/go/v37rq8/for). The combined total amount stolen has almost reached $82 million. Bitcoin, of course, has been the largest target. Based on current prices, just one robbery that took place in 2011 resulted in the hackers taking hold of over $3.7 billion worth of bitcoin—a staggering figure. ***With security issues surrounding cryptocurrencies still not fully rectified, their capability as an effective hedge is compromised. When was the last time you heard of a gold depository being robbed? Not to mention the fact that most depositories have full insurance coverag***

### A2 Inner Cities

#### Turn. In the status quo, the capital gains tax provides a crucial incentive to invest in inner cities. That’s because as Tankersley from the New York Times reports in January 2018, investors in inner cities receive a tax deduction from their capital gains taxes based on their investment. By abolishing the capital gains tax, you remove the incentive for investment in inner cities. Thus, we link into all their impacts better.

Jim Tankersley, 1-29-2018, "Tucked Into the Tax Bill, a Plan to Help Distressed America," New York Times, https://www.nytimes.com/2018/01/29/business/tax-bill-economic-recovery-opportunity-zones.html, //RP **The law creates “Opportunity Zones,” which will use tax incentives to draw long-term investment to parts of America that continue to struggle with high poverty and sluggish job and business growth.** The provision is the first new substantial federal attempt to aid those communities in more than a decade. And it comes as a disproportionate share of economic growth has been concentrated in so-called superstar metropolitan areas like Los Angeles and New York. If the zones succeed, they could help revitalize neighborhoods and towns that are starved for investment.

### A2 Biotech

#### 1. Turn this argument. Jennifer Washbur finds in 2007 that private investment into biotech firms led to a 4 times increase in the chance that the firm found no harms with the drug. Private investment into the biotech industry leads to worse drugs being created. Prefer federal funding, which doesn’t have this problem, but can only happen if revenue doesn’t decrease.

#### 2. Turn again. Kristina Zucchi finds that biotech investments are often extremely volatile. Investment only increase speculation for these companies, increasing the chance that they tank and fail.

Jennifer Washbur, 10-11-2007, "Science's Worst Enemy: Corporate Funding," Discover Magazine, http://discovermagazine.com/2007/oct/sciences-worst-enemy-private-funding, //RP One meta-analysis published in BMJ (British Medical Journal) found that pharmaceu­tical-­industry-funded research was four times more likely to reflect favorably on a drug than research not financed by industry. Even when Bero controls for a variety of other factors, she finds that the effect of industry funding on the research outcome is huge. Research on secondhand smoke conducted by researchers with industry ties is 88 times more likely to find no harm; industry-funded studies comparing cholesterol drugs are 20 times more likely to favor the sponsor’s drug.

Kristina Zucchi, Cfa, 10-31-2014, "Pharmaceutical Vs. Biotech Investing: Is It Worth The Risk?," Investopedia, https://www.investopedia.com/articles/general/022814/pharmaceutical-vs-biotech-investing-it-worth-risk.asp, //RP Despite this, when a company’s compound is in [clinical trials](https://www.investopedia.com/terms/c/clinical-trials.asp), if the “endpoints” (expected data) are not met, the stocks can plummet. But if the endpoints are exceeded, the stocks can soar many-fold. As a result, investors in biotech companies need to be willing to tolerate a great deal of [volatility](https://www.investopedia.com/terms/v/volatility.asp).

### A2 Hurts Real Estate

#### The Property Value Disad. The Wellington Tax Group 09’ finds that not taxing capital gains will increase the value of properties by making the prospect of holding land more attractive since people will no longer have to pay taxes on its value. This is bad for 2 reasons.

#### The Wellington Tax group furthers that raising the price of real estate will lead to more savings being absorbed by property assets, which would decrease the amount of savings that could be invested in productive businesses.

#### Ben Ansell finds in analysis of 29 countries that higher assets values lead citizens to lose eligibility to receive redistributive transfers, thus he concludes that citizens with more valuable property have lower demand for redistribution policies. Indeed, historically during periods of housing booms right wing parties tend to cut back more vigorously on welfare.

#### Ali Gholizadeh 14 finds that the most important object of CGT is controlling the housing market fluctuations, which happens because the CGT makes the prospect of investing in real estate to gain money less attractive. He concludes that because of this reduced speculation the capital gains tax empirically reduces the chance of housing bubble forming.

#### Historically this is just untrue, Todd Sinaji finds that the fear of a housing bubble forming caused the stocks of publicly traded real estate companies to fall by 9% following the 1997 tax cut.

#### Mitigate, McClelland ‘16 of the Joint Taxation Committee finds less than 2% of net capital gains are from home sales.

#### Mitigate, Wathen ‘17 of the Motley Fool explains that most home sales are exempt from capital gains because the first 250 to 500,000 in capital gains on your home is tax free, depending on your marital status.

(cards)

**Wellington Tax Group**, Victoria University, No Publication, 2009, ["," https://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/twg/publications/3-taxation-of-capital-gains-ird\_treasury.pdf, DOA: 1-17-2018] // ZWS

Subject to one qualification, **failure to tax gains on land will lead to higher land price**s but this will not have direct effects on deadweight loss because land is in fixed supply. **The qualification is that there may be some tax-induced bias as to who holds land with the lack of a tax on accruing gains meaning that this is an attractive asset for those on higher tax rates to acquire. It can thus produce a bias in who owns land**. But it will not distort how land is used.

**Wellington Tax Group**, Victoria University, No Publication, 2009, ["," https://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/twg/publications/3-taxation-of-capital-gains-ird\_treasury.pdf, DOA: 1-17-2018] // ZWS

There is, however, another issue which may impact on GDP and growth. **The absence of a capital gains tax will tend to increase land prices which may lead to more savings being absorbed by property assets than would otherwise be the case**. A benefit that Treasury would see in subjecting real property **to [a] capital gains tax is that this would reduce property values which might increase savings available to be invested in productive** New Zealand **businesses**

**Ben Ansell**, University of Oxford, 2014, ["," https://www.cambridge.org/core/services/aop-cambridge-core/content/view/F9F0C1F7146D3F35CA3856CD981E5567/S0003055414000045a.pdf/political\_economy\_of\_ownership\_housing\_markets\_and\_the\_welfare\_state.pdf, DOA: 1-17-2018] // ZWS

How does variation in housing prices affect preferences over redistribution and social insurance? In terms of redistribution, higher housing prices raise homeowners’ permanent income and thus reduce their expected demand for redistributive tax and transfer schemes**. First, if property is taxable, homeowners may be subject to higher** taxes, whether as **capital gains,** inheritance tax, or annual property taxation. Second**, higher asset values may lead citizens to lose eligibility to receive means-tested redistributive transfers**. Finally, presuming diminishing marginal returns to income, **citizens with more valuable property and hence higher permanent income may have lower demand for redistributive transfers themselve**s**. Collapsing house prices should produce greater support for redistribution among homeowners for the reverse reasons**. Housing also affects preferences over social insurance policies that provide income support during periods out of the labor market. The ability to use housing as a means to smooth consumption (through borrowing or sale) while out of the work force and to draw down on housing to fund retirement provides citizens with steady levels of consumption during periods of lower income and thus can substitute for socially provided transfers such as unemployment insurance and pensions**. Homeownership** thus **acts as a form of self-supplied “private insurance” against the welfare losses associated with job loss, especially, per the buffer stock argument**, when access to credit may be severely curtailed.1 **Higher house prices mean more valuable private insurance and hence should lead to lower demand from homeowners for social insurance as a hedge against such risks.**

**Ben Ansell**, University of Oxford, 2014, ["," https://www.cambridge.org/core/services/aop-cambridge-core/content/view/F9F0C1F7146D3F35CA3856CD981E5567/S0003055414000045a.pdf/political\_economy\_of\_ownership\_housing\_markets\_and\_the\_welfare\_state.pdf, DOA: 1-17-2018] // ZWS

I tested these propositions in two empirical settings. First, I **examined panel survey data from the USA, the UK, and a cross-national survey of 29 countries, finding strong evidence for the claim that homeowners with appreciating property are less supportive of both redistribution and social insurance and that this pattern is amplified among right-wing voters**. Second, **I found that right-wing parties do appear to have cut back social spending more vigorously during housing booms**. E**xamining house price declines, I find a “reversal of preferences,” as homeowners, particularly those with negative equity, become relatively more supportive of social insurance and redistribution**. The degree to which this will translate into higher spending at the aggregate level is a complicated question, given the other constraints on government spending that manifest during economic downturns. Nonetheless, **this analysis suggests that social insurance policies are likely to increase in popularity among the public in the wake of the recent housing crisis**, portending a clash between public opinion and austerity policies. Put together, these findings suggest a powerful new approach to thinking about the interaction of the economy and the welfare state. As advanced economies have encountered both increasingly volatile asset markets and retrenchment in the welfare state, this theory helps us to understand how these forces are connected. Indeed, thinking about the role of ownership enables us to address a range of theoretical and empirical anomalies in political economy

**Todd Sinaji**, Journal of Public Economics, 7-1-2004, ["The asset price incidence of capital gains taxes: evidence from the Taxpayer Relief Act of 1997 and publicly-traded real estate firms," http://www.sciencedirect.com/science/article/pii/S0047272703000367, DOA: 1-17-2018] // ZWS

**By comparing the performance of two organizational forms of publicly-traded real estate companies, we are able to estimate the effect of the capital gains tax rate reduction** in TRA97 **on the share prices** of UPREITs while holding all other industry-level and time-varying changes constant. The result provides insight into the classic question of the asset price incidence of taxes while minimizing the identification problems of previous work. In addition, we are able to provide new evidence on a corporate-level subsidy to investment, in contrast to much of the existing literature on tax capitalization that focuses on shareholder-level effects. In our preferred specification, we find that the capital gains tax rate changes in TRA97 **led to an 8% decline in the share price** of acquisitive UPREITs relative to REITs and non-acquisitive UPREITs, all relative to the same time period in 1996. By comparing acquisitive real estate companies to less-acquisitive ones, we are able to prevent our results from being driven by spurious movements in property prices.

**Ali Akbar Gholizadeh**, No Publication, 2014, ["," https://journals.ut.ac.ir/article\_53284\_90dd2425848493d1ae72857e701e5184.pdf, DOA: 1-16-2018] // ZWS

Capital gains equal the difference between the selling and purchasing value of housing. When acceptable tax costs are deducted from the mentioned figure, taxable capital gain is obtained. In addition to incomegeneration**, one of the most objectives of CGT is controlling housing market fluctuations.** In other words, the reduction of business cycles volatilities is defined in terms of basic variables such as price and value added in housing sector. Essentially, gains are computable by two different definitions: real and accrued gains and computable gains. Real gains are measured according to accomplished transactions in the market, that is, a particular portion of or whole property is traded and the capital gained will be subject to tax. When the gains do not go through the market, the computable or attributed gains occur which are not taxable.

**Ali Akbar Gholizadeh**, No Publication, 2014, ["," https://journals.ut.ac.ir/article\_53284\_90dd2425848493d1ae72857e701e5184.pdf, DOA: 1-16-2018] // ZWS

Housing market control will not be possible simply by applying monetary policies, but complementary fiscal policies, especially, tax reform policies will be inevitable. **Tax policy is considered as one of the powerful and effective tools to control the price volatility of housing in housing policies literature. One of the powerful tools of controlling and steering the housing speculation to minimize its losses on the housing sector is capital gain tax (CGT) which is broadly used in most advanced and developed countries**. Thus, **CGT puts the combination of price volatility and housing investment in a situation that provides better conditions in terms of efficiency compared to countries that lack this tax system**. Thus, capital gain taxation is defensible if **it can reduce price risk as well as increase investment growth**. Estimation **results also confirm this and suggest that in all estimated equations, real CGT and its share of total tax and total tax revenue have had significant negative effect on housing price bubble and real price.**

Robert McClelland (is a senior fellow and works to apply an evidence-based approach to a variety of important policy issues. Currently, he is studying how investors react to changes in the tax rate on capital gains, and how the labor supply of couples responds to changes in individual tax rates. He has published articles in journals such the American Economic Review, Journal of Applied Econometrics, Journal of Public Economics, National Tax Journal, and Review of Income and Statistics. He is a member of the Conference on Research in Income and Wealth. He also regularly teaches econometrics at Johns Hopkins University. He received a BA in economics and environmental studies from the University of Santa Cruz and a PhD in economics from the University of California, Davis), Congressional Budgeting Office & Joint Committee on Taxation, August 2016, ["," https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51831-Capital\_Gains.pdf, DOA: 1-16-2018] // ATA

How Do Holdings of Capital Assets and Realizations of Gains Vary by Type of Asset? In 2010, two-thirds of families owned their homes, which had a combined value of $21 trillion (before mortgage obligations)—41 percent of the total value of capital assets. But less than 2 percent of the sum of all net capital gains and net capital losses reported on tax returns was from home sales, a much smaller share than for most other types of capital assets, in part because the Internal Revenue Code allows taxpayers to exclude most of the gains from those sales. Although corporate stock—which was directly held by only 15 percent of families— constituted 7 percent of the total value of capital assets in 2010, stock transactions accounted for two-thirds of the sum of net gains and net losses that year. The average value of capital assets held by families in 2010 was much greater than the median value, indicating that asset worth was concentrated among a relatively small number of families. The gap between the mean and the median values was largest for privately owned businesses (held by 13 percent of families) and smallest for personal residences.

Jordan Wathen (University of Southern Indiana), Motley Fool, 1-13-2017, ["5 Things to Know About Capital Gains Tax," https://www.fool.com/retirement/2017/01/13/5-things-to-know-about-capital-gains-tax.aspx, DOA: 1-17-2018] // ATA

2. Capital gains tax is the only voluntary tax If you earn an income, you have to pay income taxes. When it comes to capital gains, you decide when they become taxable. Suppose you buy a stock for $20 per share. Several years later, the business has performed spectacularly, and shares now trade for $100 each. You have a capital gain of $80 per share, but you don't have to pay taxes on that gain until you sell. Legendary investor Warren Buffett has famously used tax law to his favor by holding his winners forever, pushing off any taxes on the gains. For most investments, you hold the ultimate decision on when you should pay a capital gains tax by deciding when to realize the gain by selling at a profit. 3. Real estate may be exempt from capital gains tax Some capital gains can be earned and realized tax free. When you own your own home, you might be able to avoid paying taxes on its appreciation when you sell it. The first $250,000 of capital gains on your home is tax-free for single people, and increases to $500,000 for married couples who file taxes jointly. You just have to meet some simple requirements. First, the home has to be your primary residence. Secondly, you must have owned your home for at least two years, and you must have lived in the home for at least two of the last five years. In other words, most people who own their own home and live in it like, you know, normal people, can avoid capital gains taxes on its appreciation over time. 4. Capital losses can offset capital gains Many investors use a trick known as "tax loss harvesting" to realize capital losses at the same time they realize capital gains. For example, suppose you own two stocks, one with a $10,000 gain and one with a $10,000 loss. You want to realize the gain on the winner, but you aren't too eager to pay the taxes on your gain. That's understandable. In some cases, it may make sense to sell both stocks, realize the $10,000 gain on one, and the $10,000 loss on the other, and thus report $0 in net capital gains. Losses in excess of your gains can be particularly valuable. You can deduct up to $3,000 of capital losses in excess of gains against ordinary income each year. Ordinary income is taxed at a higher rate than capital gains, so the tax savings are even larger.

### A2 Reduces Entrepreneurship

#### Cutting the capital gains tax will not increase entrepreneurs Alice Rivlin 11’ explains 2 problems with .

#### The capital Gains tax is a very small portion of the cost of acquiring capital, the interest rate of loaning that capital is a much bigger barrier

#### A Lower Rate tax rate on capital gains directs more capital into investments that are more likely to throw off income as capital gains, also known as tax shelters, rather than other uses that might have higher rates of returns.

#### In analysis spanning 24 years taking data from all 50 states Grayden Shand 18’ found that entrepreneurs tend to sacrifice income in order to improve the odds of their business working leading him to find that on average entrepreneurs make 30% less then non self employed workers. This gap in wages is bad as he finds that because of this pay discrepancy a 1%-point increase in the amount of entrepreneurs increases income inequality by 3.5%, leading him to conclude that policy decisions aimed to increase the amount of entrepreneurs decrease economic growth and increase income inequality.

**ALICE M. RIVLIN** , 11-16-2011, ["The Case for Eliminating the Preferential Treatment of Capital Gains," https://bipartisanpolicy.org/blog/case-eliminating-preferential-treatment-capital-gains/, DOA: 1-22-2018] // ZWS

**Experience has demonstrated that the 1986 Act was conducive not only to revenue growth, but also to economic growth**. **By 1996, under essentially the same , capital gains tax treatment as in the 1986 Act, the economy had recovered from the 1990-1991 recession, economic growth was robust, and a full-fledged investment boom was underway**. Business investment in equipment, which had fallen to 6.9 percent of the GDP in the 1990-1991 recession, was up to 8.3 percent in 1996. Real GDP grew by an average of 3.3 percent over 1992-1996, and 3.7 percent in 1996. This result follows from basic economics. **Economists know that the income tax on capital gains is a very small part of the cost of capital. Far greater is the cost of funds – the interest rate itself**. **The main mission of the Joint Select Committee – deficit reduction – is far more important for capital investment than anything that might be done to protect the tax preference for capital gains. Capital gains tax preferences are also much more a bonus for the already-wealthy portfolio investor than an incentive for the budding entrepreneur**. **The capital gains tax preference is irrelevant for the many entrepreneurs who hope to build and run successful businesses** and earn salaries from them. **Even for such entrepreneurs who look forward eventually to selling their businesses upon retirement, the capital gains tax is years away, and its impact on their ultimate outcomes will be overwhelmed by the degree of their success in running their businesses**. The much greater part of capital gains realized by individuals is on sales of corporate stock by portfolio investors, rather than sales of businesses owned by entrepreneurs. In the latest (2007) data released by the Internal Revenue Service, **tax-favored long-term capital gain or loss transactions on corporate stock accounted for 53 percent of all transactions, and 26 percent of all net capital gain. In stark contrast, capital gain or loss transactions on partnership, S corporation and estate or trust interests accounted for only 2 percent of all transactions, and less than 6 percent of all net capital gain** – only about one-fifth the amount of sales of shares of established corporations. Net ordinary income from businesses and professions was nearly seven times the amount of capital gains from sales of businesses – and that does not include any of the entrepreneurial income that is reported as simple salary income. And of course, **a tax preference afforded to all capital gains steers scarce resources also to all other kinds of investments – including precious metals, collectibles, U.S. government bonds, and so on – instead of to the rewards to true entrepreneurs, much of which flow in the form of ordinary income**. As noted earlier, **a lower tax rate for capital gains directs more capital into investments that are more likely to throw off income as capital gains, at the expense of some other uses that might actually have higher rates of return**. **Capital gains treatment historically has been one of the key ingredients in the classic tax shelter**, which wastes society’s scarce resources on investments that generate tax losses to offset other income, rather than profits earned in the free marketplace. And misleadingly, because the eventual cash receipts from liquidating tax shelters are reported as realized capital gains, this sheer economic waste makes the tax receipts from capital gains look larger. The Task Force proposal includes a substantial reduction in the corporate income tax rate, to 28 percent. That makes the corporate rate approximately equal to the average across all developed nations. Because firms usually want to locate in the markets in which they sell, and because the United States is the largest market in the world, this competitive corporate tax rate should encourage the location of more production activity in the United States, with resulting benefits for employment. And the reduction of the tax rate for corporate-source income will provide a benefit to owners of corporate stock who would lose the capital gains preference.

**Grayden Shand**, SpringerLink, 1-6-2018, ["An empirical analysis of the relationship between entrepreneurship and income inequality," https://link.springer.com/article/10.1007/s11187-017-9984-1, DOA: 1-15-2018] // ZWS

In particular, Åstebro et al. ([2011](https://link.springer.com/article/10.1007/s11187-017-9984-1)) propose a model of labor market frictions in **which entrepreneurs are skilled in a variety of activities and there is complimentarity between their skills, finding that average wages under self-employment are lower than mean wages under paid employment**. Hamilton ([2000](https://link.springer.com/article/10.1007/s11187-017-9984-1)) examines differences in earnings between self-employment and paid employment**, reporting that a majority of entrepreneurs enter and remain in business even though their initial earnings, as well as their earnings growth are lower than earnings of individuals in paid employment. He estimates an earnings differential of 35% for self-employed individuals**, further arguing that this differential potentially underestimates the true differential as fringe benefits are generally not included in wages under paid employment. Using data for Canada, Lin et al. ([2000](https://link.springer.com/article/10.1007/s11187-017-9984-1)) **find that self-employed earnings average approximately 8 cents to a dollar less than those of wage and salary employees**. Similar findings have been reported by, among others, Mathias et al. ([2017](https://link.springer.com/article/10.1007/s11187-017-9984-1)), and Åstebro and Chen ([2014](https://link.springer.com/article/10.1007/s11187-017-9984-1)).

**Grayden Shand**, SpringerLink, 1-6-2018, ["An empirical analysis of the relationship between entrepreneurship and income inequality," https://link.springer.com/article/10.1007/s11187-017-9984-1, DOA: 1-15-2018] // ZWS

Turning now to the estimated coefficients, several observations are evident from the table. First, regardless of the measure of inequality, the estimate of the coefficient on the self-employment rate is always positive and statistically significant at conventional levels of significance. When the Gini index is used as the measure of inequality, the estimated coefficient on the self-employment rate is 0.035, suggesting that **a one percentage point increase in the self-employment rate is associated with a 0.035 point increase in income inequality** (Gini index).

**Grayden Shand**, SpringerLink, 1-6-2018, ["An empirical analysis of the relationship between entrepreneurship and income inequality," https://link.springer.com/article/10.1007/s11187-017-9984-1, DOA: 1-15-2018] // ZWS

Over the last four decades, the USA has experienced a simultaneous increase in income inequality and entrepreneurship. This paper explores whether there is, in fact, a relationship between entrepreneurship and income inequality, or whether this correlation is merely an empirical coincidence. **The analysis uses annual data on all 50 US states and DC from 1989 to 2013. To ensure robustness of our results, we use four measures of entrepreneurship and nine measures of income inequality**. Methodologically, the paper contributes to the literature by using the system GMM estimator which is more robust to measurement error than cross-sectional models, and also alleviates some of the potential endogeneity biases that arise from the simultaneous determination of entrepreneurship and inequality. The methodology also allows us to control for unobservable time-invariant factors across states that may affect both inequality and entrepreneurship through the inclusion of state fixed effects. As well, year fixed effects are included to account for the possibility of common trends in the variables of interest. Our results provide strong evidence of a positive relationship between entrepreneurship and income inequality. This finding is stable across different measures of entrepreneurship, as well as alternative measures of income inequality. **Given the extensive literature on the growth-retarding impacts of income inequality (see e.g., Aghion et al.** [**1999**](https://link.springer.com/article/10.1007/s11187-017-9984-1)**; Atems** [**2013a**](https://link.springer.com/article/10.1007/s11187-017-9984-1)**,** [**b**](https://link.springer.com/article/10.1007/s11187-017-9984-1)**) our results suggest that policies aimed at encouraging entrepreneurship will not only increase inequality, but may be detrimental to growth**. Yet, the finding that economic growth reduces inequality (Tables [2](https://link.springer.com/article/10.1007/s11187-017-9984-1), [3](https://link.springer.com/article/10.1007/s11187-017-9984-1), [4](https://link.springer.com/article/10.1007/s11187-017-9984-1), and [5](https://link.springer.com/article/10.1007/s11187-017-9984-1)) suggests that perhaps growth-enhancing policies are a more effective way to reduce inequality than policies aimed at encouraging entrepreneurship, per se

**Carolin Bock**, TU Darmstadt, 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ZWS

**Venture capitalists seem to be able to pick the companies to invest in more diligently when tax rates are high**. This finding provides some evidence for the question discussed in the literature of whether **venture capitalists are able to identify potentially more successful companies during their initial due diligence process** (Bertoni et al., 2011; Brander et al., 2002; Dimov & Shepherd, 2005; Dimov et al., 2007; Lerner, 1994). The results are corroborated when we analyze venture capital investments in consecutive funding rounds. Companies have a lower probability of receiving further funding rounds when capital gains taxes are high. **However, if the capital gains tax was high at the time of the first funding, the company has a higher probability of receiving funding in consecutive rounds, again pointing at a selection effect**

#### Less startups but more successful startups,

**Carolin Bock**, TU Darmstadt, 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ZWS

By doing so, **we are able to study the decisions for a sample of 76,852 funding rounds in 32 countries from 2000 to 2012**. Our results support the predictions of the theoretical model that higher capital gains tax rates are associated with fewer startups financed and a lower probability of receiving follow-up funding. **However, the results concerning the effect on the probability of success of start-ups show that a higher tax burden is associated with a higher probability of eventual start-up success.**

## A2 Misc

### A2 MLPs

#### 1. Sure Dividend reports in 2017 that the tax on distributions is actually higher for MLPs, thus the claim that they have lower tax on capital gains is absolutely false. The reason they invest is because MLPs are exempt from taxes at the corporate level, which isn’t affected by abolishing the CGT. Our opponents change nothing.

#### 2. David Roberts from Vox explains in October 2017 that even if you abolish the CGT, there are many other factors that cause fossil fuel companies to have higher investment. Subsidies from Trump’s administration, the Republicans’ new tax bill, and supportive public policies will always benefit fossil fuel companies, regardless of what happens to the CGT.

#### 3. Even if you believe that abolishing the CGT will benefit renewable energy companies, Republicans will always pass policies in the future against fossil fuels, the problem will never be solved.

Sure Dividend, 6-25-2017, "The Ultimate Guide To Investing In MLPs," Seeking Alpha, https://seekingalpha.com/article/4084379-ultimate-guide-investing-mlps, accessed 2-2-2018//AS

Well, one reason is MLP distributions appear to be taxed more heavily than the dividends of common stocks. While the tax on their distributions is higher, MLPs avoid taxation at the organizational level, which leads to higher after-tax income for the investors in these partnerships.

David Roberts, 10-7-2017, "Friendly policies keep US oil and coal afloat far more than we thought," Vox, https://www.vox.com/energy-and-environment/2017/10/6/16428458/us-energy-subsidies, accessed 2-2-2018//AS

The coal industry and its allies in the Trump administration have recently devoted considerable energy to arguing that subsidies to renewable energy have distorted energy markets and helped drive coal out of business. “Certain regulations and subsidies,” says Rick Perry, “are having a large impact on the functioning of markets, and thereby challenging our power generation mix.” You can guess which regulations and subsidies he’s talking about. This is nothing new, of course. It is in keeping with a long conservative tradition of challenging the economic wisdom and effectiveness of energy subsidies. At least, uh, some energy subsidies. Energy analysts have made the point again and again that fossil fuels, not renewable energy, most benefit from supportive public policy. Yet this fact, so inconvenient to the conservative worldview, never seems to sink in to the energy debate in a serious way. The supports offered to fossil fuels are so old and familiar, they fade into the background. It is support offered to challengers — typically temporary, fragmentary, and politically uncertain support — that is forever in the spotlight.

# A2 Neg

## A2 Inequality

### A2 General

#### First: Turn because big government, particularly through regulation, contributes to income inequality Tanner 16 explains that the rate of new business creation in the U.S. is half what it was in the 1980s and that small firms normally lack the working capital needed to deal with red tape and long court cases, therefore making it hard to grow and create jobs. He continues that the government spends more than $100 billion every year on corporate welfare which provides favors to the politically powerful and well connected rather than tax breaks meant to increase economic growth. Therefore, far from being the enemy of inequality, big government can actually be an engine to greater inequality.

#### Turn again because growth is the best way to decrease poverty Tanner states that we are unlikely to see significant reductions in poverty without strong economic growth because that’s the only way poverty has decreased since the 1970s. Thus, punishing the segment of society that most contributes to such growth therefore seems a poor policy for serious poverty reduction. Meaning that the only way to provide solvency for poverty is by voting pro because Mitchell 14 explains that if the capital gains tax were removed, the economy would grow 1 to 3 percent as locked in capital is now freed up.

#### [don’t read if they read investment bad]Turn again Lundeen 14 quantifies that the lower cost of capital means higher returns to investment, so more people invest. This lower cost also means the workers disincentive to work, that the high tax rate had created, is lessened resulting in a 25% wage increase.

#### Turn because the capital gains tax reduces jobs The Investing News Source for Financial Advisors 11 explains that sparring the rich from paying taxes, particularly the CGT, creates jobs. Poverty and unemployment is better solved on our side by allowing the rich to create more business and hire the poor.

Domenech, Ben. “Why Inequality Doesn't Matter.” The Federalist, 28 Apr. 2014, thefederalist.com/2014/04/23/why-inequality-doesnt-matter/.

The left continues to operate on an a priori assumption that income inequality/wealth concentration is a bad thing, because of those riches backstroking through their money. But that’s just a jealousy trope. Upon closer inspection, you’ll see that income inequality and wealth concentration don’t inhibit economic mobility; they don’t inhibit economic growth; and they are not detrimental to democracy or to human liberty. Admittedly, I haven’t read all of Piketty’s book yet, but from the excerpts and interviews I’ve read, of these aspects he appears to be only arguing for the third, since the bulk of academic research undermines any arguments for the first or second. How anyone can argue this when the past three centuries have given us an explosion of democratic freedom and an elevation of the livelihoods of numbers of humans unprecedented in the history of the species, I have no idea. Nor can I see why anyone needed to offer policy proposals to mitigate this “problem”, which apparently has very few measurable downsides. That’s why the whole problem with the Piketty-driven conversation that frustrates me has to do with the right’s response thus far, and the concession that this type of inequality even matters. So what if the rate of return on capital reproduces itself faster than the rate of return on labor – in real life, the money doesn’t stay in Scrooge McDuck’s vault, it goes into investments which pay more people to do more things. Piketty doesn’t think this will happen – he projects economic growth at levels lower than anything we’ve seen since the industrial revolution. You’ve got to be a pretty high-level doomsayer – well beyond the “machines are going to take our jobs and our birthrates will be zero” – to believe that sort of thing.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 18.

Increasingly, costly and restrictive regulations can create barriers to entry that reduce competition and preserve excess profits in regulated industries. The U.S. rate of new business creation is half of what it was in the 1980s, and the United States is 33rd in the World Bank’s rankings of how easy itis to start a business. The Economist warns, “Small firms normally lack both the working capital needed to deal with red tape and long court cases, and the lobbying power that would bend rules to their purposes.” The result may be undeservedly high profits for existing firms and unearned wealth for those who manage and invest in them. Government may intervene even more directly to support businesses with political connections. The Cato Institute, for example, estimates that the federal government spends more than $100 billion every year on corporate welfare. Most of this spending provides favors to the politically powerful and well connected, rather than tax breaks meant to increase overall economic growth. It may be reasonable to say, therefore, that far from being the enemy of inequality, big government can actually be an engine, or at least an accomplice, to greater inequality. It is not that inequality tilts the political playing field so much as it is that government provides the mechanism through which inequality can flourish.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 19.

Economic growth, after all, depends on people who are ambitious, skilled risk-takers. We need such people to be ever-striving for more in order to fuel economic growth. That means they must be rewarded for their efforts, their skills, their ambitions, and their risks. Such rewards inevitably lead to greater inequality. But as Nobel Economics Prize–winning economist Gary Becker pointed out, “It would be hard to motivate the vast majority of individuals to exert much effort, including creative effort, if everyone had the same earnings, status, prestige, and other types of rewards.” To be sure, since the 1970s the relationship between economic growth and poverty reduction has been uneven at best. But we are unlikely to see significant reductions in poverty without strong economic growth. Punishing the segment of society that most contributes to such growth therefore seems a poor policy for serious poverty reduction

Mitchell, Daniel. “The Overwhelming Case Against Capital Gains Taxation.” Forbes. N.p., 7 Nov 2014. Web. 8 Jan 2018. <https://www.forbes.com/sites/danielmitchell/2014/11/07/the-overwhelming-case-against-capital-gains-taxation/#71527fa93b0a>.

Capital gains are taxed on a realization basis. This means that the tax is only imposed when an investor opts to withdraw his or her investment from the market and realize the capital gain. One of the most significant economic effects is the incentive this creates for owners of capital to retain their current investments even if more profitable and productive opportunities are available. Economists refer to this result as the "lock-in" effect. Capital that is locked into suboptimal investments and not reallocated to more profitable opportunities hinders economic output. ...Peter Kugler and Carlos Lenz (2001)...examined the experience of regional governments ("cantons") in Switzerland that eliminated their capital gains taxes. The authors’ statistical analysis showed that the elimination of capital gains taxes had a positive and economically significant effect on the long-term level of real income in seven of the eight cantons studied. Specifically, the increase in the long-term level of real income ranged between 1.1 percent and 3.0 percent, meaning that the size of the economy was 1 percent to 3 percent larger due to the elimination of capital gains taxes. Then the authors analyze the impact of capital gains taxes on the "user cost" of capital investment. Capital gains taxes make capital investments more expensive and therefore less investment occurs. ...Several studies have investigated the link between the supply and cost of venture capital financing and capital gains taxation, and found theoretical and empirical evidence suggesting a direct causality between a lower tax rate and a greater supply of venture capital. ...Kevin Milligan, Jack Mintz, and Thomas Wilson (1999) sought to estimate the sensitivity of investment to changes in the user cost of capital...and found that decreasing capital gains taxes by 4.0 percentage points leads to a 1.0 to 2.0 percent increase in investment.

Lundeen, Andrew. “How Tax Reform Increases Jobs and Wages.” Tax Foundation, 13 Jan. 2014, taxfoundation.org/how-tax-reform-increases-jobs-and-wages/.

These tax cuts (especially the corporate rate and the capital gains and dividends rates) lower the cost of investment. The lower cost of capital means higher returns to investment, so more people invest. Start-ups receive more venture capital funds and create new businesses and jobs, because investors want to invest more money. Likewise, money becomes more readily available for existing companies to invest into better machines, faster computers, and other high tech gadgets. This new and better equipment improves workers’ productivity, which will lead to higher wages due to the increased value workers create for their company. A similar effect is felt by workers. The decrease in taxes decreases a workers cost of additional work. The lower cost lessens the worker's disincentive to work that the high tax rate had created. Instead of receiving 60 cents on every dollar, they would receive 75 cents instead – effectively a 25 percent wage increase. This increases the number of hours worked economy wide, because people work longer hours. Because of the additional productivity created by the extra investment and addition hours worked, the economy grows. This is good for everyone. This means higher wages, more jobs, and a better quality of life. And pro-growth tax reform is the catalyst for all these beneficial things.

“INcite: Want to Create Jobs? First Cut Capital Gains Taxes.” InvestmentNews - The Investing News Source for Financial Advisers, 27 Oct. 2011, www.investmentnews.com/article/20111027/FREE/111029944/incite-want-to-create-jobs-first-cut-capital-gains-taxes.

But Cuomo's insistence is born of experience. Higher taxes can destroy jobs. As data from the Tax Foundation show, New Yorkers are net migrants to Connecticut. Both Cuomo and various jubilant governors in Connecticut have attributed the shift to taxes. Cuomo has said that he aims to ensure the tax regime in the Empire State stops driving others away. “I think you are kidding yourself if you think you can be one of the highest-taxed states in the nation, have a reputation for being anti-business and have a rosy economic future,” Cuomo said recently, according to the Daily News. He may also have looked at weightier studies surveying the treatment of capital nationally. These suggest that sparing the rich from paying taxes creates jobs. This is especially true for the capital-gains tax, the levy that defines the rentier class that the protesters resent.

### A2 Topshelf

#### First: Inequality and poverty have no correlation Tanner 16 explains that there is little relationship between inequality and poverty. The fact that some people become wealthy does not mean that others will become poor. Make them prove that when rich people become richer, that poor people will also become poorer.

#### Second: Inequality is not growing Tanner again quantifies that in 2000, prior to bush tax cuts, consumption per household in each class was roughly the same as it was 10 years later in 2010 after increased taxes in the Obama era. Realize that even if there have been gains at the top, it has not resulted in adverse consumption effects for those further down the income ladder.

#### Third: Multiple measures show that real inequality is in decline Tanner continues that not only do more people across the income distribution have access to more things, but adoption of new technologies and products is speeding up. Whereas it took decades for the telephone and electricity to make their way into the majority of American homes, new products, such as the cellphone and Internet, have a much faster adoption rate. Thus, even as inequality, as measured by Piketty and others, has risen, people at the bottom of the income scale have better standards of living. If the poor are richer, should we care if the rich are even richer?

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 1.

Economic inequality has risen to the top of the political agenda, championed by political candidates and best-selling authors alike. Yet, many of the most common beliefs about the issue are based on misperceptions and falsehoods. Although we are frequently told that we are living in a new Gilded Age, the U.S. economic system is already highly redistributive. Tax policy and social welfare spending substantially reduce inequality in America. But even if inequality were growing as fast as critics claim, it would not necessarily be a problem. For example, contrary to stereotypes, the wealthy tend to earn rather than inherit their wealth, and relatively few rich people work on Wall Street or in finance. Most rich people got that way by providing us with goods and services that improve our lives. Income mobility may be smaller than we would like, but people continue to move up and down the income ladder. Few fortunes survive for multiple generations, while the poor are still able to rise out of poverty. More important, there is little relationship between inequality and poverty. The fact that some people become wealthy does not mean that others will become poor. Although the wealthy may indeed take advantage of political connections for their own benefit, there is little evidence that, as a group, they pursue a political agenda designed to suppress the poor or prevent policies designed to help them. At the same time, rather than reducing economic inequality, more government intervention may actually make the situation worse. Since policies to reduce inequality, such as increased taxes or additional social welfare programs, are likely to have unintended consequences that could cause more harm than good, we should instead focus on implementing policies that actually reduce poverty, rather than attacking inequality itself.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 5-6.

Given these problems, a better way to measure inequality might be to look at differences in consumption between income groups. A study by Hassett and Aparna Mathur, also of the American Enterprise Institute, found that the “consumption gap across income groups has remained remarkably stable over time. . . . If you sort households according to their pretax income, in 2010 the bottom fifth accounted for 8.7% of overall consumption, the middle fifth for 17.1%, and the top fifth for about 38.6%. Go back 10 years to 2000— before two recessions, the Bush tax cuts, and continuing expansions of globalization and computerization—and the numbers are similar. The bottom fifth accounted for 8.9% of consumption, the middle fifth for 17.3%, and the top fifth for 37.3%” (Figure 4). Although Hassett and Mathur did not specifically look at the top 1 percent of incomes, their study does demonstrate that, even if there have been gains at the top, it has not resulted in adverse consumption effects for those further down the income ladder.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 15-16.

Housing provides another example. As recently as 1975, more than 2.8 million renter households (roughly 11 percent of renter households and 4 percent of all households) lived in what was considered “severely inadequate” housing, defined as “units with p hysical defects or faulty plumbing, electricity, or heating.” Today that number is down to roughly 1.2 million renter households (1 percent of all households). In 1970, fully 17.5 percent of households did not have fully functioning plumbing; today, just 2 percent do not. And if you look at material goods, the case is even starker. In the 1960s, for instance, nearly a third of poor households had no telephone. Today, not only are telephones nearly universal, but roughly half of poor households own a computer. More than 98 percent have a television, and two-thirds have two or more TVs. In 1970, less than half of all poor people had a car; today, two thirds do. Clearly, the material circumstances of poor families have improved significantly despite any possible increase in inequality. Not only do more people across the income distribution have access to more of these things, but adoption of new technologies and products is speeding up. Whereas it took decades for the telephone and electricity to make their way into the majority of American homes, new products, such as the cellphone and Internet, have a much faster adoption rate, as indicated in Figure 11. Thus, even as inequality, as measured by Piketty and others, has risen, people at the bottom of the income scale have better standards of living. It becomes an open question, therefore, whether inequality matters as long as everyone is becoming better off. In other words, if the poor are richer, do we care if the rich are even richer?

### A2 Capital Gains Solves

#### First: We cannot use the tax code to address inequality – there are too many countervailing factors McBride 12 explains that inequalities caused by globalization and differing education levels will not be remedied by destroying future investment; to the contrary those most likely to be hurt the most by lower economic growth are those with lower incomes. Capital gains taxation adds another layer of taxation onto American businesses, making them less competitive.

#### Second: Higher capital gains taxes do not encourage the wealthy to “pay their fair share” Moore 15 states that capital gains taxes don’t hurt the Warren Buffett’s and the Wall Street hedge fund managers much. They might have to pay a higher tax bill — but more than likely they will simply hold on to their stock longer to avoid the higher tax penalty. But the people who will get hurt are the middle class, minorities, and young people. Wages rise when workers can produce more, and they can produce more when they get smarter, better trained, and have more capital to work with. A tax on capital is thus an invisible tax on wages.

#### Third: Turn because Moore continues that the people who get hurt by CGT are the middle class, minorities, and young people. Wages rise when workers can produce more, and they can produce more when they get smarter, better trained, and have more capital to work with. A tax on capital is thus an invisible tax on wages.

David Block and William McBride, staff, “Why Capital Gains Are Taxed at a Lower Rate,” Tax Foundation, 6—27—12, https://taxfoundation.org/why-capital-gains-are-taxed-lower-rate/, accessed 1-5-18.

Attempting to use the tax code to address income inequality will likely disappoint those who seek to attack the lower tax rate on high net worth individuals caused by a lower capital gains and dividends rate. Inequalities caused by globalization and differing education levels will not be remedied by destroying future investment; to the contrary those most likely to be hurt the most by lower economic growth are those with lower incomes. The intensification of international competition for lower corporate tax rates has been highly publicized, but international capital gains taxation has been largely ignored. Capital gains taxation adds another layer of taxation onto American businesses, making them less competitive. The table below shows how the U.S. stacks up in terms of the total taxation of corporate investment. The first column shows the U.S. capital gains rate (federal plus state) is above the OECD average. Thirteen countries in the OECD have no capital gains tax. The second column shows that the U.S. integrated capital gains tax rate (corporate rate plus capital gains) is the 4th highest in the OECD. This burden will rise to the highest in the OECD starting January 1 if the Bush tax cuts are allowed to expire and the Obamacare investment surtax of 3.8% goes into effect. The combination of history, international competition, and the destructive nature of the capital gains tax suggests any attempts to raise revenue by raising rates are doomed to failure. The focus on June 28th should not be on raising the capital gains rate, but should instead be focused on how to keep the rate low. History shows that this is the most effective way to both raise revenue and promote economic growth.

Stephen Moore, FreedomWorks, “Five Myths About Capital Gains Taxes,” WASHINGTON TIMES, 8—2—15, www.washingtontimes.com/news/2015/aug/2/stephen-moore-five-myths-about-capital-gains-taxes/, accessed 1-4-18.

Raising the capital gains tax is a good way to make the rich pay their “fair share” of taxes. Despite Mrs. Clinton’s assurances that her plan is meant to discourage “short termism” in the boardroom, the real agenda here is hardly a secret: she wants to sock it to the rich. But the irony of this is it won’t hurt the Warren Buffett’s and the Wall Street hedge fund managers much. They might have to pay a higher tax bill — but more likely they will simply hold on to their stock longer to avoid the higher tax penalty. But the people who will get hurt are the middle class, minorities, and young people — the same group that has been clobbered during this so-called recovery. Wages rise when workers can produce more, and they can produce more when they get smarter, better trained, and have more capital to work with. A tax on capital is thus an invisible tax on wages. When Ronald Reagan and Mrs. Clinton’s husband Bill Clinton cut the capital gains tax, wages and productivity surged.

Stephen Moore, FreedomWorks, “Five Myths About Capital Gains Taxes,” WASHINGTON TIMES, 8—2—15, www.washingtontimes.com/news/2015/aug/2/stephen-moore-five-myths-about-capital-gains-taxes/, accessed 1-4-18.

Raising the capital gains tax is a good way to make the rich pay their “fair share” of taxes. Despite Mrs. Clinton’s assurances that her plan is meant to discourage “short termism” in the boardroom, the real agenda here is hardly a secret: she wants to sock it to the rich. But the irony of this is it won’t hurt the Warren Buffett’s and the Wall Street hedge fund managers much. They might have to pay a higher tax bill — but more likely they will simply hold on to their stock longer to avoid the higher tax penalty. But the people who will get hurt are the middle class, minorities, and young people — the same group that has been clobbered during this so-called recovery. Wages rise when workers can produce more, and they can produce more when they get smarter, better trained, and have more capital to work with. A tax on capital is thus an invisible tax on wages. When Ronald Reagan and Mrs. Clinton’s husband Bill Clinton cut the capital gains tax, wages and productivity surged.

### A2 Mobility

#### First: Income mobility is relatively high – even in and out of the top one-percent Tanner 16 explains that only about 2.2 percent of people spend five or more years in the top 1 percent of the income distribution from age 25 to 60 and just 1.1 percent of people spend 10 or more years in the top 1 percent. At the same time, it remains possible for the poor to become rich, or, if not rich, at least not poor. Studies show that roughly half of those who begin in the bottom quintile move up to a higher quintile within 10 years.

#### Second: Economic mobility is a reality – the claimed negative effects of inequality are exaggerated Tanner continues that most wealthy people earned their wealth, and did so by providing goods and services that benefit society as a whole. Those who are rich today may not remain rich tomorrow and those who are poor may still rise out of poverty. While inequality per se may not be a problem, poverty is. But there is little evidence to suggest that economic inequality increases poverty.

#### Third: There is no correlation between economic mobility, poverty or income inequality Tanner continues again stating that when China’s inequality rose between 1990 and 2010, poverty decreased significantly signaling strong economic mobility. In general, income inequality can actually lower poverty or increase mobility, meaning the two have absolutely no correlation.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 11-12.

For those who reach the 1 percent of income, spending long periods of time in that bracket is relatively rare. According to Hirschl and Rank, only about 2.2 percent of people spend five or more years in the top 1 percent of the income distribution from age 25 to 60. Just 1.1 percent spend 10 or more years in the top 1 percent. Attaining 10 consecutive years in the top 1 percent of income is even rarer: just over half of 1 percent do so. In short, there is no calcified class of 1 percenters who stay there, earning enormous incomes year after year. At the same time, it remains possible for the poor to become rich, or, if not rich, at least not poor. Studies show that roughly half of those who begin in the bottom quintile move up to a higher quintile within 10 years. A more recent working paper found that 43 percent of families in the poorest income quintile and 27 percent of those in the second quintile saw earnings growth of at least 25 percent over a two-year period. These numbers may be somewhat distorted by one-time asset sales (such as a house), but still show considerably more economic mobility than commonly understood. And their children can expect to rise even further. One out of every five children born to parents in the bottom income quintile will reach one of the top two quintiles in adulthood. Moreover, these studies focus on relative income mobility. Looking at absolute mobility, which considers whether children grow up to have higher incomes than their parents after adjusting for things like cost of living and household size, the vast majority of Americans have family income higher than their parents (Figure 8). Economic mobility may not be as robust as we would like. In particular, upward mobility has been sluggish for decades. There is plenty of room to debate causes and solutions for this problem. But, it is simply untrue to suggest that the rich will stay rich and the poor will stay poor.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 19-20.

But even if inequality were as bad as advertised, one has to ask why that should be considered a problem. Of course, inequality may be a problem if the wealthy became rich through unfair means. But, in reality, most wealthy people earned their wealth, and did so by providing goods and services that benefit society as a whole. Moreover, there remains substantial economic mobility in American society, although as noted above, there are policy reforms often unmentioned in the inequality debate that could expand the opportunities available to people toward the bottom of the income distribution, such as education reform, reducing occupational licensing and other regulatory barriers to entrepreneurship, reforming the criminal justice system, and eliminating the perverse incentives of the welfare system. Those who are rich today may not remain rich tomorrow. And those who are poor may still rise out of poverty. While inequality per se may not be a problem, poverty is. But there is little evidence to suggest that economic inequality increases poverty. Indeed, policies designed to reduce inequality by imposing new burdens on the wealthy may perversely harm the poor by slowing economic growth and reducing job opportunities.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 14.

The relationship between poverty and inequality remains unclear, in part because the number of confounding variables and broader societal changes make any kind of determination difficult. But what research there is generally finds that poverty cannot be tied to inequality. For instance, a recent paper by Dierdre Bloome of Harvard finds “little evidence of a relationship between individuals’ economic mobility and the income inequality they experienced when growing up. . . . Over a twenty year period in which income inequality rose continuously, the intergenerational income elasticity showed no consistent trend.” While most studies examine these trends at the national level, she delves into state-level variation in inequality and social mobility. Again, she finds no evidence of a relationship, as “the inequality to which children were exposed in their state when growing up provides no information about the mobility they experienced as adults.” We should also note that international experience parallels the United States. Using World Bank data, which puts the Gini coefficient on a scale of 100, we can see that there are multiple countries where this has been the case recently. For example, China had a Gini coefficient of 32.43 in 1990 and it rose to 42.06 in 2009, meaning China became much more unequal. At the same time, the proportion of the population living below $1.25 a day (adjusted for purchasing power parity), the measure usually used for international poverty lines, fell from 60.18 percent in 1990 to only 11.8 percent in 2009.

### A2 Political Capture

#### First: The effects of inequality on the political process are exaggerated Tanner 16 explains that there is little evidence that the wealthy are able to use their political power to enact a broad agenda that favors the wealthy or penalizes the poor.

#### Second: Political concerns are overblown – the wealthy have disparate political views Tanner continues that the assumption that all wealthy people share a similar political orientation is simply not supported by data. About one-third of the top 1 percent of wealthiest Americans self-identify as Republicans, compared to roughly a quarter who self-identify as Democrats, a statistically significant, but far from overwhelming, tilt toward Republicans. As for policy preferences, while there are some signs that there are some policy areas where the very wealthy hold different views, on most issues they do not diverge significantly from the rest of the public.

#### Third: There is little evidence that wealth can buy elections Tanner states that the wealthy have little to no impact on elections. For a U.S. House candidate, for example, the first $500,000 or so is considered crucial to establishing a viable campaign. After that, additional funds and spending have diminishing returns

#### Fourth: Our system is highly redistributive Tanner continues that the U.S. system is highly redistributive. The wealthy pay a disproportionate share of taxes and the regulatory state and the overall size of government have grown substantially. If the wealthy are attempting to tilt the playing field in favor of the rich, they have been remarkably unsuccessful.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 16.

Recently, a new argument against inequality has come to the fore: that inequality skews the political process in ways that benefit the wealthy and penalize the poor. In doing so, it locks in the status quo, limiting economic mobility, and enabling the wealthy to become still wealthier. There is certainly some merit to this argument. The federal government can and does dispense favors to those with connections to the levers of power. This has enabled some individuals to accumulate wealth that they could not have earned in a truly free market. In that sense, disparities of political power may exacerbate inequality. On the other hand, there is far less evidence that the wealthy are able to use their political power to enact a broad agenda that favors the wealthy or penalizes the poor.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 16.

A complete review of campaign finance law is beyond the scope of this paper. However, the assumption that all wealthy people share a similar political orientation is simply not supported by the data. According to a Gallup Poll, about one-third of the top 1 percent of wealthiest Americans self-identify as Republicans, compared to roughly a quarter who self-identify as Democrats, a statistically significant, but far from overwhelming, tilt toward Republicans. Wealthy Americans are slightly more likely to call themselves conservatives than liberals, but so is the American public as a whole. As for policy preferences, while there are some signs that there are some policy areas where the very wealthy hold different views, on most issues they do not diverge significantly from the rest of the public. Simply look at such wealthy political activists as George Soros, Charles Koch, Sheldon Adelson, and Tom Steyer. Clearly, there is no common political denominator in that group. Moreover, while many wealthy individuals are politically active, that activism is often offset by groups that represent lower-income individuals, or groups whose politics cut across the socioeconomic spectrum. For example, 14 of the top 25 spenders during the 2012 election were unions, which ostensibly advocate for the working class.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 16.

Even if the wealthy were more uniform in their political involvement, there is little evidence to show that money can buy elections. Obviously, a certain minimum amount of money is necessary to become a viable candidate. For a U.S. House candidate, for example, the first $500,000 or so is considered crucial to establishing a viable campaign. After that, additional funds and spending have diminishing returns.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 16.

Finally, as noted above, the U.S. system is highly redistributive. The wealthy pay a disproportionate share of taxes. The regulatory state and the overall size of government have grown substantially. If the wealthy are attempting to tilt the playing field in favor of the rich, they have been remarkably unsuccessful.

### A2 Causes Poverty

#### First: There is little correlation between poverty and income inequality Tanner 16 states that when China’s inequality rose between 1990 and 2010, poverty decreased significantly signaling strong economic mobility. In general, income inequality can actually lower poverty or increase mobility, meaning the two have absolutely no correlation.

#### Second: Turn because consumption measures show that poverty is decreasing despite persistent inequality Tanner continues that since consumption poverty has decreased and many observers believe that consumption is the best measure of the poor’s actual standard of living, this suggests that not only does rising inequality not correlate with greater poverty, but that rising inequality may actually solve poverty.

#### Third: Poverty rates are stable, and deep poverty is virtually non-existent in the U.S. Tanner explains that while the official poverty rate in the United States has been relatively stable since the mid-1970s, the sort of deep poverty that was once common among poor Americans has been largely eliminated despite whatever increase in inequality has occurred over the last 50 years.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 14.

The relationship between poverty and inequality remains unclear, in part because the number of confounding variables and broader societal changes make any kind of determination difficult. But what research there is generally finds that poverty cannot be tied to inequality. For instance, a recent paper by Dierdre Bloome of Harvard finds “little evidence of a relationship between individuals’ economic mobility and the income inequality they experienced when growing up. . . . Over a twenty year period in which income inequality rose continuously, the intergenerational income elasticity showed no consistent trend.” While most studies examine these trends at the national level, she delves into state-level variation in inequality and social mobility. Again, she finds no evidence of a relationship, as “the inequality to which children were exposed in their state when growing up provides no information about the mobility they experienced as adults.” We should also note that international experience parallels the United States. Using World Bank data, which puts the Gini coefficient on a scale of 100, we can see that there are multiple countries where this has been the case recently. For example, China had a Gini coefficient of 32.43 in 1990 and it rose to 42.06 in 2009, meaning China became much more unequal. At the same time, the proportion of the population living below $1.25 a day (adjusted for purchasing power parity), the measure usually used for international poverty lines, fell from 60.18 percent in 1990 to only 11.8 percent in 2009.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 13-14.

Comparison with the consumption-based poverty measure is especially interesting, with poverty showing a substantial decline despite rising inequality. Since many observers believe that consumption is the best measure of the poor’s actual standard of living, this suggests that not only does rising inequality not correlate with greater poverty, but a rising tide may truly lift all boats. That is, those same economic factors that make it possible for the rich to become rich may make life better for the poor as well. One can see similar results from comparing the poverty rate to the share of after-tax income earned by the wealthiest 1 percent. There is no discernable correlation (Figure 10).

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 14-15.

Moreover, in discussing poverty and inequality, we should keep in mind that while the official poverty rate in the United States has been relatively stable since the mid-1970s, the sort of deep poverty that was once common among poor Americans has been largely eliminated despite whatever increase in inequality has occurred over the last 50 years. Take hunger, for example. In the 1960s, as much as a fifth of the U.S. population and more than a third of poor people had diets that did not meet the Recommended Dietary Allowance for key nutrients. Conditions in 266 U.S. counties were so bad that they were officially designated as “hunger areas.” Today, malnutrition has been significantly reduced. According to the U.S. Department of Agriculture, just 5.6 percent of U.S. households had “very low food security” in 2013, a category roughly comparable to the 1960s measurements. Even among people below the povert y level, only 18.5 percent report very low food security.

### A2 Redistribution

#### First: Government-driven income redistribution will do little to address poverty Tanner continues that Despite the United States spending roughly a trillion dollars each year on antipoverty programs at all levels of government, by the official poverty measure we have done little to reduce poverty. He explains that even by more accurate alternative poverty measures we have still failed to reduce poverty through distribution regardless of having reduced inequality.

#### Second: Turn because big government, particularly through regulation, contributes to income inequality Tanner 16 explains that the rate of new business creation in the U.S. is half what it was in the 1980s and that small firms normally lack the working capital needed to deal with red tape and long court cases, therefore making it hard to grow and create jobs. He continues that the government spends more than $100 billion every year on corporate welfare which provides favors to the politically powerful and well connected rather than tax breaks meant to increase economic growth. Therefore, far from being the enemy of inequality, big government can actually be an engine to greater inequality.

#### Third: Turn again because growth is the best way to decrease poverty Tanner states that we are unlikely to see significant reductions in poverty without strong economic growth and punishing the segment of society that most contributes to such growth therefore seems a poor policy for serious poverty reduction. Meaning that the only way to provide solvency for poverty is by voting pro because Mitchell 14 explains that if the capital gains tax were removed, the economy would grow 1 to 3 percent.

#### Fourth: Turn once again Because Tanner explains that the only form of inequality that provides negative effects is the effect of politically connected wealth inequality. Not politically unconnected wealth inequality and income inequality. Meaning only can big government cause negative effects through inequality.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 18.

Traditionally, we have tried to reduce inequality by taxing the rich and redistributing that money to the poor. And, as noted above, we have achieved some success. But we may well have reached a point of diminishing returns from such policies. Despite the United States spending roughly a trillion dollars each year on antipoverty programs at all levels of government, by the official poverty measure we have done little to reduce poverty. Even by using more accurate alternative poverty measures, gains leveled out during the 1970s, apart from the latter part of the 1990s when the booming economy and the reform of the welfare system produced significant reductions in poverty. Additional increases in spending have yielded few gains. Thus, while redistribution may have reduced overall inequality, it has done far less to help lift people out of poverty

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 18.

Increasingly, costly and restrictive regulations can create barriers to entry that reduce competition and preserve excess profits in regulated industries. The U.S. rate of new business creation is half of what it was in the 1980s, and the United States is 33rd in the World Bank’s rankings of how easy itis to start a business. The Economist warns, “Small firms normally lack both the working capital needed to deal with red tape and long court cases, and the lobbying power that would bend rules to their purposes.” The result may be undeservedly high profits for existing firms and unearned wealth for those who manage and invest in them. Government may intervene even more directly to support businesses with political connections. The Cato Institute, for example, estimates that the federal government spends more than $100 billion every year on corporate welfare. Most of this spending provides favors to the politically powerful and well connected, rather than tax breaks meant to increase overall economic growth. It may be reasonable to say, therefore, that far from being the enemy of inequality, big government can actually be an engine, or at least an accomplice, to greater inequality. It is not that inequality tilts the political playing field so much as it is that government provides the mechanism through which inequality can flourish.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 19.

Economic growth, after all, depends on people who are ambitious, skilled risk-takers. We need such people to be ever-striving for more in order to fuel economic growth. That means they must be rewarded for their efforts, their skills, their ambitions, and their risks. Such rewards inevitably lead to greater inequality. But as Nobel Economics Prize–winning economist Gary Becker pointed out, “It would be hard to motivate the vast majority of individuals to exert much effort, including creative effort, if everyone had the same earnings, status, prestige, and other types of rewards.” To be sure, since the 1970s the relationship between economic growth and poverty reduction has been uneven at best. But we are unlikely to see significant reductions in poverty without strong economic growth. Punishing the segment of society that most contributes to such growth therefore seems a poor policy for serious poverty reduction

Mitchell, Daniel. “The Overwhelming Case Against Capital Gains Taxation.” Forbes. N.p., 7 Nov 2014. Web. 8 Jan 2018. <https://www.forbes.com/sites/danielmitchell/2014/11/07/the-overwhelming-case-against-capital-gains-taxation/#71527fa93b0a>.

Capital gains are taxed on a realization basis. This means that the tax is only imposed when an investor opts to withdraw his or her investment from the market and realize the capital gain. One of the most significant economic effects is the incentive this creates for owners of capital to retain their current investments even if more profitable and productive opportunities are available. Economists refer to this result as the "lock-in" effect. Capital that is locked into suboptimal investments and not reallocated to more profitable opportunities hinders economic output. ...Peter Kugler and Carlos Lenz (2001)...examined the experience of regional governments ("cantons") in Switzerland that eliminated their capital gains taxes. The authors’ statistical analysis showed that the elimination of capital gains taxes had a positive and economically significant effect on the long-term level of real income in seven of the eight cantons studied. Specifically, the increase in the long-term level of real income ranged between 1.1 percent and 3.0 percent, meaning that the size of the economy was 1 percent to 3 percent larger due to the elimination of capital gains taxes. Then the authors analyze the impact of capital gains taxes on the "user cost" of capital investment. Capital gains taxes make capital investments more expensive and therefore less investment occurs. ...Several studies have investigated the link between the supply and cost of venture capital financing and capital gains taxation, and found theoretical and empirical evidence suggesting a direct causality between a lower tax rate and a greater supply of venture capital. ...Kevin Milligan, Jack Mintz, and Thomas Wilson (1999) sought to estimate the sensitivity of investment to changes in the user cost of capital...and found that decreasing capital gains taxes by 4.0 percentage points leads to a 1.0 to 2.0 percent increase in investment.

Michael Tanner, Senior Fellow, Cato Institute, “Five Myths About Economic Inequality in America,” POLICY ANALYSIS n. 797, Cato Institute, 9—7—16, p. 17.

In the popular imagination, it is an unrestrained free market that gives rise to inequality, and a powerful government is necessary to act as a counterweight. In reality, big government is often complicit with, and frequently the cause of, inequality. Inequality caused by such crony capitalism may be particularly pernicious on economic grounds as well as principles of fairness. For instance, some studies suggest that high degrees of inequality can actually slow economic growth or reduce the amount of freedom in a country. Among them, a study by Southern Methodist University economist Ryan Murphy for the Cato Journal found “inequality appears to have a negative impact on economic freedom.” But, other studies show that the key component in this equation is whether the inequality results from normal free-market forces or from government-dispensed favors. According to economists Sutirtha Bagchi of the University of Michigan and Jan Svejnar of Columbia University, “When we control for the fact that some billionaires acquired wealth through political connections, the effect of politically connected wealth inequality is negative, while politically unconnected wealth inequality, income inequality, and initial poverty have no significant effect.”

## A2 Social Spending

### A2 Social Spending General

#### Turn, Gustafson 13 of Vanderbilt University explains that there exists a consensus that capital gains taxes rate harms the poor and society in general because it limits economic expansion.

1. **Turn: Burman and Gale 97 very explicitly explain that the capital gains tax is rather regressive. Ultimately, the best way to decrease income inequality would be to affirm.**

Cards:

Andy Gustafson (Gustafson graduated from Vanderbilt University with a Bachelor of Arts in Economics. For 13 years prior to entering the 1031 exchange industry, he worked in the Enterprise Resource Planning (ERP) manufacturing software market helping companies in North, Central and South America improve production efficiencies. Mr. Gustafson qualified and received the professional designation of Certified Exchange Specialist® (CES®) created by the Federation of Exchange Accommodators to set a standard of 1031 accommodator ethics and excellence), Atlas 1031 Exchange Financial Serviices, 4-11-2013, ["Capital Gains Tax Rate Economic Impact," http://www.atlas1031.com/blog/1031-exchange/bid/83533/Capital-Gains-Tax-Rate-Economic-Impact, DOA: 1-16-2018] // ATA

In 2013, the capital gains tax rate increased for those in the upper income brackets. Internal Revenue Code Section 1031 and Treasury Regulations provides a welcome relief for those taxpayers who replace their assets by potentially indefinitely deferring the federal and state capital gain by engaging a Qualified Intermediary to accommodate a 1031 exchange. With the American Taxpayer Relief Act, the capital gain tax rate was increased to about 20% for both individual and married couple taxpayers. The capital gains tax rate goes up even higher when you look at the Medicare surtax on net investment income. Wealthy taxpayers could see their capital gains tax rate rise over more than half their previous rates. Investors owe capital gain taxes on their economic gain according to their income while businesses are also assessed capital gain taxes. Investment or personal property used in a business like aircraft, kidney dialysis machines, oil and gas, heavy road construction equipment sold triggers a 25% tax known as recapture depreciation. Taxpayers should also look at the applicable state, county and municipal capital gain taxes in addition to the federal capital gain taxes. Potential Economic Impact Many people share the opinion that long term capital gain taxes are detrimental to economic growth. Capital gains are taxed when the asset is sold. When capital income is taxed, the reward for investing in equipment or for appreciation is diminished providing a disincentive to invest in capital assets. The outcome of higher capital gains tax rates is potentially less investment, fewer jobs, lower wages and a deflationary economy. With the capital gains tax rate going up, there are those taxpayers and businesses who will delay replacing equipment to maximize utilization and possibly not replace given with higher taxes, there is less capital to reinvest. Why invest to pay a higher tax rather, hold as Treasury bills or Certificate of Deposits avoiding the higher capital gains tax rate. To the contrary, there are advocates who suggest that there isn't a lot of capital gains tax collected, so there isn't a lot of damage done; however, the majority of analysts believe that a higher capital gains tax causes a lack of hiring, minimal economic expansion reducing gross domestic product growth. When the capital gains tax rate is lower, the return on capital is higher, providing an incentive for investment activity. The consensus is that a high capital gains tax rate hurts the poor and society in general because it limits economic expansion. Capital gains taxes are a controversial topic especially for the taxpayers and businesses dependent upon capital assets as a revenue generator. 1031 Tax Deferred Exchange An effective strategy to minimize higher capital gains is to replace the asset in a 1031 exchange. The outcome is that now the taxpayer has an asset with a longer useful life, depreciation that offsets income and interest free operating capital that would otherwise be paid out in taxes. The tax deferred dollars are fully utilized by being invested in assets that are aligned with business strategies to maximize investment return. 1031 Exchange Examples An example is a road construction company that sells their Roadtec milling machine and replaces with a newer more efficient model. Another example is an Original Equipment Manufacturer of agricultural equipment that owns a business aircraft for reasons to reduce travel expenses and flexibility. By exchanging for a more efficient, bank owned aircraft, their cost of business is reduced. Capital gain tax rates impacts every part of our US economy from our competitiveness in the world market to research and development.

**Leonard E. Burman** and William G. Gale, Brookings, 9-1-1997, ["The Case Against the Capital Gains Tax Cuts," https://www.brookings.edu/opinions/the-case-against-the-capital-gains-tax-cuts/, DOA: 1-14-2018] // ATA

"Capital formation is one of the foundations of economic growth. Yet, investment in Canada has fallen [by] 18% since 2014," explains Mathieu Bédard, an economist with the MEI and author of the note. "Now that the oil industry boom is behind us, it's obvious that Canada has a chronic problem**. The capital gains tax reduces the availability of capital and makes it more expensive for companies**. Who **[workers] ends up paying the price**? Workers in particular, **through fewer jobs and lower wages**." **The capital gains tax hurts innovation by reducing the appetite of investors for riskier startups,** Bédard claims in the note. He argues that the **abolition of our capital gains tax "could encourage productivity** growth in Canada, **which would in turn improve the living standards** of all Canadians." In the report, Bédard quotes a 2004 Department of Finance Canada study showing that **each dollar reduction in capital gains taxes would lead to economic gains of approximately $1.30**. New Zealand, Switzerland, and Hong Kong don't tax capital gains at all. "In these places, positive effects from the absence of capital gains taxation have been documented," he says in the note. Another problem with **[the] capital gains tax** is that it **encourages investors in taxable accounts to lock in their investments**. Unlike most types of income — such as interest earned on bonds or guaranteed investment certificates and quarterly dividends received on equities — **the decision to realize a capital gain today vs at some date in the future is generally a matter of choice and thus taxation can be deferred indefinitely** or at least until death, when there's a deemed disposition. **This makes capital gains much more sensitive than other types of investment income to changes in the tax rate. When tax rates are high, individuals who own capital assets are generally more reluctant to sell them** as they require greater benefits to outweigh the capital gains tax burden they will incur when they **sell. For these investors, the capital gains tax effectively reduces the probability that a given stock will be sold. This, in turn, hurts economic growth because it essentially discourages the otherwise natural reallocation of capital to its most productive uses. Indeed, U.S. research suggest that for every 1% drop in the tax rate, capital gains realizations — and thereby the flow of capital — increases by 1%**. Bédard also points out in the note that **the capital gains tax is "rather regressive."** Although **some investors can easily avoid paying this tax by delaying the realization of their capital gains, not everyone can do so that easily.** He argues that **other groups — such as low- and middle-income taxpayers, the elderly and less successful investors — typically have low financial flexibility and, therefore, have much less discretion over when to realize capital gains as they need the cash flow these asset sales generate. They are, therefore, in a sense, much more affected by capital gains taxation than high-income earners.**

### A2 Welfare

#### Turn. Michael Tanner from the Cato Institute writes that while welfare has been proven to be ineffective in reducing poverty, cutting taxes like the capital gains tax that inhibit growth and jobs works in reducing poverty much better than welfare does. The AFF is the best way to solve.

#### James Stewart from the New York times finds that the capital gains tax is super easy for rich people to avoid, which is why David Marotta finds in 2014 that half of all capital gains are never even taxed. The only people who are actually paying these taxes are not the people they are trying to solve for.

#### Jack Kemp from the Wall Street Journal finds that rich people are able to sit on money and therefore never have to sell and never incur the tax. Middle class people are the only people who are forced to sell their assets to pay for things like college education or a new car. Abolishing the tax solves this inequality.

#### Shambaugh of the Harvard Business Review writes in October that wages have stagnated in America, growing only 0.2% a year for the past 5 decades. When average wages are low, it’s impossible to fight income inequality. Eliminating the capital gains tax does just that for two reasons. First, the US Congress Joint Committee on Economy finds that a lower capital gains tax would decrease the cost of doing businesses, resulting in higher wages across the board. Second, Shambaugh finds that an influx of capital through lowered business costs and higher investment would improve worker productivity, which will also increase wages. Because we address the root cause of income inequality, we solve the problem better, while they maintain the stagnant status quo.

#### Realize the recession are the biggest increase in inequality, as the poor don’t have enough spending to survive. Solving the recession through investment in small businesses is the most crucial impact.

Stewart, James. "A Tax Loophole for the Rich that Just Won't Die." NYTimes. 11/9/17. https://www.nytimes.com/2017/11/09/business/carried-interest-tax-loophole.html“I wouldn’t call this tax reform,” said Steven M. Rosenthal, a senior fellow at the nonpartisan Tax Policy Center.There is no more glaring example of the House Republicans’ indifference to the inequities embedded in the tax code than the treatment of so-called carried interest. For decades, the carried interest provision has enabled wealthy private equity managers, hedge fund managers and real estate investors to pay the lower capital gains rate (20 percent, not counting the Obama health care surcharge of 3.8 percent) on their income rather than the rate on ordinary income (a maximum of 39.6 percent)

Marotta, David. "14 Ways to Avoid Paying Capital Gains." Forbes. 6/1/14. https://www.forbes.com/sites/davidmarotta/2014/06/01/fourteen-ways-to- avoid-paying-capital-gains/2/#4889427369fa Because most savvy individuals can decide the timing and amount of capital gains they choose to realize each year, the capital gains tax is considered very elastic. The amount of capital gains realized depends heavily on the favorability of the capital gains tax rate. **As a result, over half of capital gains are never taxed. They are avoided completely.** But the effort of avoiding the tax causes capital to be allocated inefficiently in the meantime. The tax punishes entrepreneurship. Were the capital gains tax abolished entirely, some of the lost tax would be regained through economic expansion and more efficient and liquid capital markets. Conversely, since capital gains taxes have been raised, the slowing of economic growth could reduce tax revenue by more than the additional tax collected. The optimum capital gains tax rate is zero. If it was zero for everyone, all these shenanigans to avoid the tax could be ignored.

Kemp, Jack. “Greenspan Is Right: Abolish Capital Gains Taxes.” The Wall Street Journal, Dow Jones & Company, 24 Feb. 1997, www.wsj.com/articles/SB856727723792338500.

As a rock-bottom minimum, Congress should cut the capital gains tax rate in half--to 14% for those in the highest tax brackets--and to zero for urban enterprise zones such as the District of Columbia. At least as important, all future capital gains should be indexed for inflation, and for two years capital gains that already have been accrued should be indexed back to the date of the asset's acquisition. As Ted Forstmann pointed out on this page last year, these reforms would create a flood of investment, unlocking an estimated $5 trillion in capital gains (about three-fourths of which are purely inflationary gains). Owners of these assets currently are sitting on them because they refuse to sell the assets and face the exorbitant and confiscatory inflation tax, which amounts to about $1 trillion--an average tax rate of about 80% on the inflation-adjusted gains. Most Democrats and Republicans agree that taxing inflated gains is unfair, but neither party seems to appreciate the extent to which it is also self-defeating. Both parties are trapped by their delusion that the trillion-dollar, inflation-swollen bonanza of accrued capital gains taxes eventually will materialize as revenue. It won't. People simply refuse to pay the high toll to go through the tax gate, so they sit on assets that they would rather reinvest. If, however, Congress would cut the capital gains tax rate in half and index gains for inflation retrospectively for two years, people would unlock their real gains and pay taxes on them. The result would be an estimated $150 billion increase in federal revenues, which could pay for other desirable tax cuts, such as repeal of the entirely arbitrarytax on inheritances.

Jay Shambaugh and Ryan Nunn, Harvard Business Review. October 24, 2017. Why Wages Aren͛t Growing in America. https://hbr.org/2017/10/why-wages-arent-growing-in-america The majority of Americans share in economic growth through the wages they receive for their labor, rather than through investment income. Unfortunately, many of these workers have fared poorly in recent decades. Since the early 1970s, the hourly inflation-adjusted wages received by the typical worker have barely risen, growing only 0.2% per year. In other words, though the economy has been growing, the primary way most people benefit from that growth has almost completely stalled. Jay Shambaugh and Ryan Nunn, Harvard Business Review. October 24, 2017. Why Wages Aren͛t Growing in America. https://hbr.org/2017/10/why-wages-arent-growing-in-america For wages to grow on a sustained basis, workers͛ productivity must rise, meaning they must steadily produce more per hour, often with the help of new technology or capital. Further, workers must receive a consistent share of those productivity gains, rather than seeing their share decline. Finally, for the typical worker to see a raise, it is important that workers͛ gains are spread across the income distribution. If wages are rising but the increases are all going to the best-paid workers, the typical worker doesn͛t see a gain. Two of these conditions have not been met, which explains the fact that productivity has risen while the median wage has barely changed.

Michael D. Tanner, 9-12-2006, "More Welfare, More Poverty," Cato Institute, https://www.cato.org/publications/commentary/more-welfare-more-poverty, //RP Despite this government largesse, **37 million Americans continue to live in poverty. In fact, despite nearly $9 trillion in total welfare spending since Lyndon Johnson declared War on Poverty in 1964, the poverty rate is perilously close to where it was when we began, more than 40 years ago**. Clearly we are doing something wrong. **Throwing money at the problem has neither reduced poverty nor made the poor self-sufficient.** But government welfare programs have torn at the social fabric of the country and been a significant factor in increasing out-of-wedlock births with all of their attendant problems. They have weakened the work ethic and contributed to rising crime rates. Most tragically of all, the pathologies they engender have been passed on from parent to child, from generation to generation. Welfare reform was supposed to fix all that. And, indeed, it has had some positive effects. Welfare rolls are down. Since 1996, roughly 2.5 million families have left the program, a 57 percent decline. Critics predicted that welfare reform would throw millions into greater poverty. Instead, it led to modest reductions in poverty, particularly for children, black children, and single-mother households. Most of those who left welfare found work, and of them, the vast majority work full-time. As you would expect, studies show that as former welfare recipients gain work experience, their earnings and benefits increase. But whatever successes welfare reform has brought, more can be done. And if we have learned anything by now, it is that there are limits to what government programs-even reformed ones-can do to address the root causes of poverty. Observers have known for a long time that the surest ways to stay out of poverty are to finish school; not get pregnant outside marriage; and get a job, any job, and stick with it. **That means that if we wish to fight poverty, we must end those government policies-high taxes and regulatory excess-that inhibit growth and job creation.** We must protect capital investment and give people the opportunity to start new businesses. We must reform our failed government school system to encourage competition and choice. We must encourage the poor to save and invest. More importantly, the real work of fighting poverty must come not from the government, but from the engines of civil society. An enormous amount of evidence and experience shows that private charities are far more effective than government welfare programs. While welfare provides incentives for counterproductive behavior, private charities can use their aid to encourage self-sufficiency, self-improvement, and independence. Private charities can individualize their approaches and target the specific problems that are holding people in poverty.

### A2 Healthcare

#### This argument is non-unique. Either republicans are together on cutting healthcare, in which case they’ll do it with or without the capital gains tax, or they aren’t, because Jeff Stein from the Washington Post finds that republicans aren’t together on healthcare, in which case it’ll never get cut. Either way, the capital gains tax has nothing to do with the outcome.

#### Non-unique; Ollove ‘18 of CNN reports that there are already 3.6 billion dollars of projected cuts to hospitals and drug discount programs this year.

#### Most Americans support current Healthcare Mangan 15 explains that the public has positive opinions about the massive Medicare and Medicaid health coverage systems as opposed to Republican-backed proposals that would alter their structures and potentially increase costs for more than 112 million Americans. Understand that politicians are rational actors and would not implement policies that anger most Americans.

#### Finally: Turn because Healthcare Reform is needed Anderson 10 quantifies that the Affordable Care Act didn’t reduce costs, failed to streamline the healthcare industry and most famously didn’t allow people who were satisfied with their previous coverage to remain on their plan. 14 million Americans were kicked off their coverage as a result of the ACA. Reform is needed, don’t let the negative tell you this is a bad thing.

Mangan, Dan. “These Two Health Programs More Popular than ACA.” CNBC, CNBC, 17 July 2015, www.cnbc.com/2015/07/16/medicare-medicaid-popularity-high-ahead-of-birthday.html

They may be getting up there in years, but they're still loved. The majority of the public has positive opinions about the massive Medicare and Medicaid health coverage systems—which will mark their 50th anniversaries later this month—and rate them among the most important government-run programs, according to a new survey. Strong majorities favor maintaining the basic ways that the two programs operate, as opposed to Republican-backed proposals that would significantly alter their structures, and potentially increase health costs for the more than 112 million primarily elderly and poor Americas, the Kaiser Family Foundation survey found.

Anderson, Brad. “Let's Remember Why Health Care Reform Is Needed.” RealClearPolitics, 10 July 2010, www.realclearpolitics.com/articles/2017/07/10/lets\_remember\_why\_healthcare\_reform\_is\_needed\_134418.html.

While the ACA did bring some positive ideas to the table—such as giving more Americans the ability to enjoy health insurance and protecting people with pre-existing conditions from predatory premiums—it fell short in many other aspects. It didn’t streamline the healthcare industry. It didn’t reduce costs. And most famously, it didn’t allow people who were satisfied with their previous coverage to remain on their plan. In fact, PolitiFact named the statement, “If you like your health care plan, you can keep it,” the 2013 lie of the year. No one knows exactly how many people were kicked off their plans, but many of the estimates range into the double digit millions. According to NBC News, 14 million people were kicked off their coverage as a result of the ACA, while the Washington Post reports a figure somewhere in between 7 and 12 million.

Michael Ollove, CNN, 17 January 2018, 'Safety net' hospitals face federal budget cuts //JN

http://money.cnn.com/2018/01/17/news/economy/hospitals-budget-cuts/index.html

**The $3.6 billion in cuts this year — $2 billion from a program that sends federal dollars to hospitals that serve a high percentage of Medicaid or uninsured patients, and $1.6 billion from a drug discount program** — will have the greatest effect on so-called safety net hospitals that provide medical care for all comers, no matter their ability to pay.  The cuts are in addition to other losses of federal funds as a result of Congress' failure to reauthorize spending in 2018 on other programs affecting many hospitals. These include $1.5 billion to support community hospitals, a combined $370 million for the National Health Service Corps and Teaching Health Centers -- both of which support rural hospitals -- and $3 billion for the "Medicare extenders" program, which provides additional funding for isolated, low-volume hospitals and other [rural hospitals](http://money.cnn.com/2017/10/07/news/economy/hospitals-housing/index.html?iid=EL).  "They are placing our already fragile health system in jeopardy," said Danne Howard, executive vice president of the Alabama Hospital Association. "More than 90% of our [rural hospitals](http://www.cnn.com/interactive/2017/politics/state/rural-health-care/?iid=EL) are already operating in the red. When you add further cuts to that, you are creating an extreme risk to our continued operations."  Starting Jan. 1, the Trump administration implemented a $1.6 billion cut to what is known as the 340B Drug Discount Program. Begun in 1992, the program requires drugmakers to offer deep discounts to safety net hospitals for certain drugs prescribed for Medicare patients. Those hospitals still receive full Medicare reimbursement for the drugs, but can keep the difference between the discounted price and the Medicare reimbursement to plow into enhanced services to their most vulnerable patients.  Over the years, the number of health facilities qualifying for the program has grown rapidly. Between 2001 and 2011, the number of 340B facilities roughly doubled, to about 16,500 sites, according to a study published in Health Affairs in 2014. The Medicare Payment Advisory Commission said in its 2016 report to Congress that there were 2,170 340B hospitals, many of which have multiple 340B sites. In testimony before Congress in July, the Government Accountability Office reported that there are now 21,554 340B hospital sites. But as the numbers increased, so did complaints about how the program operated. According to the Health Affairs study, more and more of the hospitals that were gaining 340B status served communities with fewer lower-income patients than the earlier 340B hospitals.  The newer 340B hospitals, the study suggested, were using their 340B status not to help poorer communities, but to push into more affluent, profitable areas.  In November, the Trump administration announced the 27% cut to the 340B program. Money that once went to 340B hospitals will now be distributed far more broadly, to most hospitals.  In announcing the rule change, Seema Verma, the administrator of the Centers for Medicare and Medicaid Services, said the new policy would save patients as much as $320 million in out-of-pocket prescription drug costs in 2018. Critics of the rule change are skeptical about that, noting that most Medicare beneficiaries have supplemental insurance policies that already cover those costs. Medicaid's Disproportionate Share Hospital (DSH) program is facing even larger cuts. Created by Congress in 1981, the program is designed to compensate hospitals that provide a significant amount of medical care for which they don't receive reimbursement. In 2012, there were 2,670 such hospitals, which represented 45% of all hospitals, according to the Medicaid and CHIP Payment and Access Commission, a nonpartisan agency that provides analysis to Congress.  In 2017, the federal allotment for DSH payments was $12 billion, with states contributing another $9.5 billion. The commission says those payments, in the aggregate, are the difference between whether disproportionate share hospitals operate in the black or not.  Under the Affordable Care Act, the hospital program was supposed to gradually wither away, since Medicaid expansion and subsidized health insurance through the ACA's health insurance exchanges was supposed to make it unnecessary.  However, after the U.S. Supreme Court ruled in 2012 that states didn't have to expand Medicaid, Congress repeatedly delayed planned reductions to the program. In 2017, however**, Congress did not vote to postpone the cuts, and they took effect Oct. 1. Unless Congress steps in, the cut to federal DSH payments in 2018 will be $2 billion, with far larger federal reductions to follow**. At the 248-bed Coosa Valley Medical Center in Tennessee, where CEP Glenn Sisk said about a quarter of the patients are on Medicaid, he anticipates that cuts to the two programs will cost his hospital between $550,000 and $650,000 this year. He said the hospital would do everything to keep the doors open, even if that meant cutting back on services or seeking another health care partner. He noted that Coosa Valley is the largest employer in the community, so its closure would have a devastating effect beyond loss of medical care. "This is," he said, "an extremely serious situation for us."  The situation is also serious for Erlanger Health System, a nonprofit that operates five hospitals in the Chattanooga, Tennessee, area. Hospital officials say the expected $5 million reduction in 340B will impede the ability to care for the uninsured and underinsured.  Other hospitals mentioned the possibility of cutting back on the number of social workers, follow-ups with patients after discharge, and transportation services to help poor patients get to medical appointments. Jeremy Alexander, interim president and CEO at the 50-bed Fort Madison Community Hospital in the southeast corner of Iowa, said the loss of 340B money could mean that the hospital will have to stop offering chemotherapy. Patients would then be faced with an hour-and-a-half drive to Iowa City.  "It's hard to swallow," he said.

Stein, Jeff. “Ryan Says Republicans to Target Welfare, Medicare, Medicaid Spending in 2018.” The Washington Post, WP Company, 6 Dec. 2017, www.washingtonpost.com/news/wonk/wp/2017/12/01/gop-eyes-post-tax-cut-changes-to-welfare-medicare-and-social-security/?utm\_term=.928fb5dd015cRyan said that he believes he has begun convincing President Trump in their private conversations about the need to rein in Medicare, the federal health program that primarily insures the elderly. As a candidate, Trump vowed not to cut spending on Social Security,Medicare, or Medicaid. (Ryan also suggested congressional Republicans were unlikely totry changing Social Security, because the rules of the Senate forbid changes to the program through reconciliation —the procedure the Senate can use to pass legislation with only 50 votes.)

### A2 Social Security

#### First: Republicans are not unified on cutting entitlements Stein 17 explains that the rules of the Senate forbid changes to social security through reconciliation – the procedure the Senate use to pass legislation with only 50 votes. This means that Republicans will be unable to change these programs without the Democrats approval.

#### Second: Turn because the capital gains tax already limits senior citizens Hodge explains that the majority of taxpayers over age 55, the same group who claim social security benefits, claim some form of capital gains or dividend income. The CGT right now limits the income of these individuals by taxing their capital gains. Realize that if you are voting in the best interests of senior citizens you are voting for the aff because social security will not be cut, and the senior citizens will no longer be taxed on their capital gains.

Stein, Jeff. “Ryan Says Republicans to Target Welfare, Medicare, Medicaid Spending in 2018.” The Washington Post, WP Company, 6 Dec. 2017, www.washingtonpost.com/news/wonk/wp/2017/12/01/gop-eyes-post-tax-cut-changes-to-welfare-medicare-and-social-security/?utm\_term=.928fb5dd015c

Ryan said that he believes he has begun convincing President Trump in their private conversations about the need to rein in Medicare, the federal health program that primarily insures the elderly. As a candidate, Trump vowed not to cut spending on Social Security, Medicare, or Medicaid. (Ryan also suggested congressional Republicans were unlikely to try changing Social Security, because the rules of the Senate forbid changes to the program through reconciliation — the procedure the Senate can use to pass legislation with only 50 votes.)

Hodge, Scott. "Majority of Seniors Benefit from Reduced Capital Gains and Dividend Tax Rates." Tax Foundation. 12/6/05. https://taxfoundation.org/majority-seniors-benefit-reduced-capital-gains-and-dividend-tax-rates/

Most of the debate over whether or not to extend the current 15 percent tax rate on capital gains and dividends—both of which are set to expire in 2008—has focused on the relatively high incomes of a minority of taxpayers who benefit from these reduced rates. Comparatively little attention has been paid to a more complete demographic profile of all of the taxpayers who claim capital gains or dividend income. Upper-income Americans clearly earn the bulk of dividend and capital gains income. But as stock ownership becomes more universal in America, stock owners—those claiming dividends or capital gains income—are becoming increasingly middle-class. Based on IRS data, Tax Foundation economists estimate that more than 80 percent of taxpayers who claim dividend income earn less than $100,000 and 76.4 percent of those who claim capital gains earn less than $100,000.

Capital Gains, Dividends and the “Graying” of America

In order to develop a demographic profile of taxpayers who benefit from lower tax rates on capital gains and dividends, Tax Foundation economists employed the Foundation’s Individual Tax Model and Matched IRS/Census Database. The picture that emerges is largely a reflection of the “graying” of America: a sizeable percentage of taxpayers who claim dividends or capital gains are over age 55, and the majority of taxpayers over age 55 claim some form of capital gains or dividend income. Table 1 illustrates the percentage of capital gains and dividend income claimed by age group. Among taxpayers with dividend income, roughly 23 percent are over age 65 while nearly 36 percent are over age 55. Among taxpayers with capital gains income, nearly 26 percent are over age 65 and more than 38 percent are over age 55.

### A2 Poverty Reduction

#### First: Poverty is still high, despite welfare funding Tanner explains that despite spending 12,892 dollars for every poor man, woman and child in this country, some 37 million Americans continue to live in poverty. In fact, despite nearly $9 trillion in total welfare spending since Lyndon Johnson declared War on Poverty in 1964, the poverty rate is perilously close to where it was when we began, more than 40 years ago. Clearly we are doing something wrong. Throwing money at the problem has neither reduced poverty nor made the poor self-sufficient.

#### Second: A better way to reduce poverty is to improve the economy Investor’s Business Daily 13 explains that as welfare programs continue to grow, poverty remains the same regardless of the increase. They state that “The best welfare program is not a government plan. It is a strong, expanding economy, which is, in fact, the only path for overcoming poverty.” AND Mitchell 14 explains that if the capital gains tax were removed, the economy would grow 1 to 3 percent.

Tanner, Michael D. “More Welfare, More Poverty.” Cato Institute, 12 Sept. 2006, www.cato.org/publications/commentary/more-welfare-more-poverty.

News that the poverty rate remained at 12.6 percent last year, statistically unchanged from the year before, has set off a predictable round of calls for increased government spending on social welfare programs. From the New York Times to the Democratic Leadership, we hear familiar complaints about how George W. Bush and congressional Republicans have “slashed” anti-poverty programs. Yet, last year, the federal government spent more than $477 billion on some 50 different programs to fight poverty. That amounts to $12,892 for every poor man, woman, and child in this country. And it does not even begin to count welfare spending by state and local governments. For all the talk about Republican budget cuts, spending on these social programs has increased an inflation-adjusted 22 percent since President Bush took office. Despite this government largesse, 37 million Americans continue to live in poverty. In fact, despite nearly $9 trillion in total welfare spending since Lyndon Johnson declared War on Poverty in 1964, the poverty rate is perilously close to where it was when we began, more than 40 years ago. Clearly we are doing something wrong. Throwing money at the problem has neither reduced poverty nor made the poor self-sufficient.

Board, Ibd Editorial. “Welfare Increases Poverty Instead Of Ending It | Stock News & Stock Market Analysis - IBD.” Investor's Business Daily, Business Daily, 29 Nov. 2013, www.investors.com/politics/editorials/welfare-spending-up-80-percent-10-years/.

All told, welfare spending will rocket from roughly $800 billion in the current fiscal year to about $1.4 trillion in fiscal 2022 — a nearly 80% jump. All told, overall welfare spending for the decade will be $11 trillion — "roughly one-quarter of cumulative federal spending," the Budget Committee reports. And that doesn't even include state spending on welfare, which, when added to federal benefits, was more than $1 trillion in fiscal 2011. That's enough, the Budget Committee tells us, "to mail every household in poverty a check for $60,000 each year.” How did we get here? In Obama-esque fashion, of course. The committee says the unimaginable spending is in part "driven by a series of controversial recruitment methods that include aggressive outreach to those who say they do not need financial assistance.” "Recruitment workers are even instructed on how to 'overcome the word "no"' when individuals resist enrollment," says committee research. "The USDA and Department of Homeland Security also have promotions to increase the number of immigrants on welfare despite legal prohibitions on welfare use among those seeking admittance into the United States.” The best welfare program is not a government plan. It is a strong, expanding economy, which is, in fact, the only path for overcoming poverty. Science fiction writer Robert Heinlein noted that "throughout history, poverty is the normal condition of man." It is only through free enterprise, which is fed by open trade, unfettered capitalism and liberalized markets, that humans have emerged from their natural state in which life was nasty, brutish and short.

Mitchell, Daniel. “The Overwhelming Case Against Capital Gains Taxation.” Forbes. N.p., 7 Nov 2014. Web. 8 Jan 2018. <https://www.forbes.com/sites/danielmitchell/2014/11/07/the-overwhelming-case-against-capital-gains-taxation/#71527fa93b0a>.

Capital gains are taxed on a realization basis. This means that the tax is only imposed when an investor opts to withdraw his or her investment from the market and realize the capital gain. One of the most significant economic effects is the incentive this creates for owners of capital to retain their current investments even if more profitable and productive opportunities are available. Economists refer to this result as the "lock-in" effect. Capital that is locked into suboptimal investments and not reallocated to more profitable opportunities hinders economic output. ...Peter Kugler and Carlos Lenz (2001)...examined the experience of regional governments ("cantons") in Switzerland that eliminated their capital gains taxes. The authors’ statistical analysis showed that the elimination of capital gains taxes had a positive and economically significant effect on the long-term level of real income in seven of the eight cantons studied. Specifically, the increase in the long-term level of real income ranged between 1.1 percent and 3.0 percent, meaning that the size of the economy was 1 percent to 3 percent larger due to the elimination of capital gains taxes. Then the authors analyze the impact of capital gains taxes on the "user cost" of capital investment. Capital gains taxes make capital investments more expensive and therefore less investment occurs. ...Several studies have investigated the link between the supply and cost of venture capital financing and capital gains taxation, and found theoretical and empirical evidence suggesting a direct causality between a lower tax rate and a greater supply of venture capital. ...Kevin Milligan, Jack Mintz, and Thomas Wilson (1999) sought to estimate the sensitivity of investment to changes in the user cost of capital...and found that decreasing capital gains taxes by 4.0 percentage points leads to a 1.0 to 2.0 percent increase in investment.

### A2 Lower Housing Prices

#### Link turn

#### Wellington Tax Group 09’ finds that not taxing capital gains will increase the value of properties by making the prospect of holding land more attractive since people will no longer have to pay taxes on its value.

#### Impact turns

#### The Wellington Tax group furthers that raising the price of real estate will lead to more savings being absorbed by property assets, which would decrease the amount of savings that could be invested in productive businesses.

#### Ben Ansell finds in analysis of 29 countries that higher assets values lead citizens to lose eligibility to receive redistributive transfers, thus he concludes that citizens with more valuable property have lower demand for redistribution policies. Indeed, historically during periods of housing booms right wing parties tend to cut back more vigorously on welfare.

**Wellington Tax Group**, Victoria University, No Publication, 2009, ["," https://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/twg/publications/3-taxation-of-capital-gains-ird\_treasury.pdf, DOA: 1-17-2018] // ATA

Subject to one qualification, **failure to tax gains on land will lead to higher land price**s but this will not have direct effects on deadweight loss because land is in fixed supply. **The qualification is that there may be some tax-induced bias as to who holds land with the lack of a tax on accruing gains meaning that this is an attractive asset for those on higher tax rates to acquire. It can thus produce a bias in who owns land**. But it will not distort how land is used

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There is, however, another issue which may impact on GDP and growth. **The absence of a capital gains tax will tend to increase land prices which may lead to more savings being absorbed by property assets than would otherwise be the case**. A benefit that Treasury would see in subjecting real property **to [a] capital gains tax is that this would reduce property values which might increase savings available to be invested in productive** New Zealand **businesses**

**Ben Ansell**, University of Oxford, 2014, ["," https://www.cambridge.org/core/services/aop-cambridge-core/content/view/F9F0C1F7146D3F35CA3856CD981E5567/S0003055414000045a.pdf/political\_economy\_of\_ownership\_housing\_markets\_and\_the\_welfare\_state.pdf, DOA: 1-17-2018] // ATA

How does variation in housing prices affect preferences over redistribution and social insurance? In terms of redistribution, higher housing prices raise homeowners’ permanent income and thus reduce their expected demand for redistributive tax and transfer schemes**. First, if property is taxable, homeowners may be subject to higher** taxes, whether as **capital gains,** inheritance tax, or annual property taxation. Second**, higher asset values may lead citizens to lose eligibility to receive means-tested redistributive transfers**. Finally, presuming diminishing marginal returns to income, **citizens with more valuable property and hence higher permanent income may have lower demand for redistributive transfers themselve**s**. Collapsing house prices should produce greater support for redistribution among homeowners for the reverse reasons**. Housing also affects preferences over social insurance policies that provide income support during periods out of the labor market. The ability to use housing as a means to smooth consumption (through borrowing or sale) while out of the work force and to draw down on housing to fund retirement provides citizens with steady levels of consumption during periods of lower income and thus can substitute for socially provided transfers such as unemployment insurance and pensions**. Homeownership** thus **acts as a form of self-supplied “private insurance” against the welfare losses associated with job loss, especially, per the buffer stock argument**, when access to credit may be severely curtailed.1 **Higher house prices mean more valuable private insurance and hence should lead to lower demand from homeowners for social insurance as a hedge against such risks.**

**Ben Ansell**, University of Oxford, 2014, ["," https://www.cambridge.org/core/services/aop-cambridge-core/content/view/F9F0C1F7146D3F35CA3856CD981E5567/S0003055414000045a.pdf/political\_economy\_of\_ownership\_housing\_markets\_and\_the\_welfare\_state.pdf, DOA: 1-17-2018] // ATA

I tested these propositions in two empirical settings. First, I **examined panel survey data from the USA, the UK, and a cross-national survey of 29 countries, finding strong evidence for the claim that homeowners with appreciating property are less supportive of both redistribution and social insurance and that this pattern is amplified among right-wing voters**. Second, **I found that right-wing parties do appear to have cut back social spending more vigorously during housing booms**. E**xamining house price declines, I find a “reversal of preferences,” as homeowners, particularly those with negative equity, become relatively more supportive of social insurance and redistribution**. The degree to which this will translate into higher spending at the aggregate level is a complicated question, given the other constraints on government spending that manifest during economic downturns. Nonetheless, **this analysis suggests that social insurance policies are likely to increase in popularity among the public in the wake of the recent housing crisis**, portending a clash between public opinion and austerity policies. Put together, these findings suggest a powerful new approach to thinking about the interaction of the economy and the welfare state. As advanced economies have encountered both increasingly volatile asset markets and retrenchment in the welfare state, this theory helps us to understand how these forces are connected. Indeed, thinking about the role of ownership enables us to address a range of theoretical and empirical anomalies in political economy

### A2 Education Funding

#### 1. Non-unique. Cory Turner from NPR finds in 2016 that the majority of education funding comes from property taxes. A federal increase in education spending won’t help to change education as long as property taxes stay the same.

#### 2. De-link their impact. Andrew Coulson of the Cato Institute finds that even trillions in education spending from the federal government barely changes academic achievement. The increase has to come from local governments, not the federal one.

#### 3. Past increases in spending have not improved schools Brown 17 explains that the Obama Administration’s signature efforts in education, which pumped billions of federal dollars into overhauling the nation’s worst schools, failed to produce meaningful results. In fact, test scores, graduation rates and college enrollment were no different in schools that received money through the School Improvement Grants program — the largest federal investment ever targeted to failing schools — than in schools that did not.

#### 4. Billions are spent on professional development, wasting money Layton 15 states that the 50 largest school districts spend an estimated $8 billion on teacher development annually. On average, this doesn’t do much and she concludes that the findings echo two recent federally funded studies, which concluded that current approaches to teacher training have no significant effect on performance.

#### 5. Capital gains taxes cut revenue by slowing growth Foster 10 explains that the CGT does create new revenues however those revenues, at best, offset the tax revenue lost from other sources due to reduced total income, output, and jobs in the economy.

Brown, Emma. “Obama Administration Spent Billions to Fix Failing Schools, and It Didn't Work.” The Washington Post, WP Company, 19 Jan. 2017, www.washingtonpost.com/local/education/obama-administration-spent-billions-to-fix-failing-schools-and-it-didnt-work/2017/01/19/6d24ac1a-de6d-11e6-ad42-f3375f271c9c\_story.html?utm\_term=.940cbdba8ab9.

One of the Obama administration’s signature efforts in education, which pumped billions of federal dollars into overhauling the nation’s worst schools, failed to produce meaningful results, according to a federal analysis. Test scores, graduation rates and college enrollment were no different in schools that received money through the School Improvement Grants program — the largest federal investment ever targeted to failing schools — than in schools that did not. The Education Department published the findings on the website of its research division on Wednesday, hours before President Obama’s political appointees walked out the door. “We’re talking about millions of kids who are assigned to these failing schools, and we just spent several billion dollars promising them things were going to get better,” said Andy Smarick, a resident fellow at the American Enterprise Institute who has long been skeptical that the Obama administration’s strategy would work. “Think of what all that money could have been spent on instead.”

Layton, Lyndsey. “Study: Billions of Dollars in Annual Teacher Training Is Largely a Waste.” The Washington Post, WP Company, 4 Aug. 2015, www.washingtonpost.com/local/education/study-billions-of-dollars-in-annual-teacher-training-is-largely-a-waste/2015/08/03/c4e1f322-39ff-11e5-9c2d-ed991d848c48\_story.html?utm\_term=.61c9a2375640.

The school districts that participated in the study spent an average of $18,000 per teacher annually on professional development. Based on that figure, TNTP estimates that the 50 largest school districts spend an estimated $8 billion on teacher development annually. That is far larger than previous estimates. And teachers spend a good deal of time in training, the study found. The 10,000 teachers surveyed were in training an average of 19 school days a year, or almost 10 percent of a typical school year, according to TNTP. “The bottom line is, they’re spending a lot of money on this and it’s such an appealing idea — take your existing teachers and just make them better and everybody is better off,” said Eric Hanushek, an economist at Stanford University’s Hoover Institution. “But this report finds that, on average, it doesn’t do much.” The findings echo two recent federally funded studies, which concluded that current approaches to teacher training have no significant effect on performance.

Foster, J.D. “Obama's Capital Gains Tax Hike Unlikely to Increase Revenues.” The Heritage Foundation, 24 Mar. 2010, www.heritage.org/taxes/report/obamas-capital-gains-tax-hike-unlikely-increase-revenues.

President Obama has proposed raising the capital gains tax rate to generate billions in new revenues for the federal government. However, according to data included in the President’s own budget, if implemented this tax increase would—at best—offset the tax revenue from other sources that would be lost because of reduced total income, output, and jobs in the economy. Thus, the President is intentionally sacrificing jobs in the pursuit of his own notions of fairness with little or no hope of increasing revenues in the process. Further, this proposal is coupled with a proposed dividend tax rate hike that would also cost jobs for little or no gain in revenues. If the President is serious about making jobs his "number one priority,” he should instead propose reducing the capital gains and dividend tax rates to stimulate the economy.

Turner, Cory. "Why America's Schools Have A Money Problem." NPR. 4/18/16. https://www.npr.org/2016/04/18/474256366/why-americas-schools-have-a-money-problemToday, our school funding system is infinitely more complex, but still based on that one, powerful idea —that education is a public good, and paying for it could be considered a public obligation.In the U.S., school funding comes from a combination of three sources. The balance varies from state to state but, on average, looks like this: **45 percent local money, 45 percent from the state and 10 percent federal.**Which brings us back to where we began this story: Why is it that one Chicago-area district has $9,794 to spend on each of its students, while another, nearby district has three times that?**Two words: property tax.**

Andrew J. Coulson, 11-5-2009, "Has Federal Involvement Improved America's Schools?," Cato Institute, https://www.cato.org/publications/commentary/has-federal-involvement-improved-americas-schools, //RP First, we have little to show for the nearly $2 *trillion* dollars spent on federal education programs since 1965. As the chart demonstrates, federal education spending per pupil has nearly tripled since 1970 in real, inflation-adjusted dollars — but achievement has barely budged. In fact, the only subject in which achievement at the end of high school has changed by more than 1 percent is science, and it has gotten worse.

### A2 Protects Emergency Services

#### First: There are a number of external funding sources that police departments can rely upon The Police Forum explains that police departments access a variety of external funding sources, primarily grants from state and federal government agencies, foundations and business groups.

#### Second: The U.S. already spends a large amount on policing, but it hasn’t had a major impact Neuhauser 17 explains that in cities such as Atlanta, Los Angeles, St. Louis, and New York City (where police pay is highest) the police has failed to improve safety for either communities of color or the officers who patrol them.

"Police Department Budgeting: A Guide for Law Enforcement Chief Executives." Police Forum. 11/02. http://www.policeforum.org/assets/docs/Free\_Online\_Documents/Budgeting/police%20department%20budgeting%20%20a%20guide%20for%20law%20enforcement%20chief%20executives%202002.pdf

Plan Strategically. Strategic planning explores policy alternatives, emphasizing the future implications of present decisions (Bryson, 1995: 5). It also develops a statement of long-range goals and objectives and is a sound management practice that should occur before the budget cycle. The long-range strategic plan enables decision makers to make better one-year, operating budget policy decisions. Bryson surmises, however, that most budgets are formed without strategic thought (1995: 152). The reason may be similar to that behind Rubin’s finding that some mayors did not want budget performance targets published because they feared that their political opponents would unfairly dwell on missed targets (1990). Participate Carefully in Federal Grants. Police departments access a variety of external funding sources, primarily grants from state and federal government agencies, foundations, and business groups. Often funds are spent on sophisticated technology, which may increase a police department’s effectiveness or efficiency. Technology may free up officers’ time, yet technology also may require expensive support. After obtaining a grant, a police executive may find it difficult to obtain additional funding from local government for support and maintenance. Therefore, police executives must take care to think through all the related costs before accepting government grants.

Neuhauser, Adam. "Cities spend more and more on police. Is it working?" US News. 7/7/17. https://www.usnews.com/news/national-news/articles/2017-07-07/cities-spend-more-and-more-on-police-is-it-working

Oakland spent 41 percent of the city's general fund on policing in Fiscal Year 2017. Chicago spent nearly 39 percent, Minneapolis almost 36 percent, Houston 35 percent. The figures reflect an accelerating trend in the past 30 years, as city governments have forked over larger and larger shares of their budgets toward law enforcement at the expense of social services, health care, infrastructure and other types of spending, according to a new report from a network of civil rights groups. The report, released Wednesday and spearheaded by The Center for Popular Democracy, Law for Black Lives and the Black Youth Project 100, is far from comprehensive, focusing on only a dozen localities. Its conclusions similarly are not universally accepted. But in looking at trends from Atlanta to Los Angeles and St. Louis County to New York City, the report's authors and editors say they're presenting a cross-section of a trend: one they say has failed to improve safety for either communities of color or the officers who patrol them, even as spending on policing ranged from $381 per person in Los Angeles to as much $772 per person in Baltimore in the past fiscal year. "If our goals are to ensure that young people have access to quality education, to ensure that every family has a home and is able to feed themselves, to ensure that everybody who is willing and able to work has an opportunity to find a job, if those are our goals and create safety, why do our budget priorities misalign so dramatically with those stated goals?" says Jennifer Epps-Addison, president and co-executive director of the Center for Popular Democracy. "Place after place, no matter what part of the country they're in, we're finding the same stories, and it speaks to the need to re-envision and reimagine public safety."

## A2 Loopholes

### A2 Loopholes General

#### 1. Speculation will only decrease if we abolish the capital gains tax because another tax will take its place to prevent increased volatility, as seen in other countries. Look to Spain that applied a “transfer assets tax” for transfers of investments after abolishing the capital gains taxes in their country. This new tax was implemented to deter the rapid buying and selling of stocks which stabilized the movement capital in the country. We have also seen this in countries without CGT like Belgium and Britain that charge a minimum of 30 euros for investment sales. This will solve this problem, even without the capital gains tax.

### A2 Helps Wealthy

#### 1. Turn, Wanniski ’91 of Polyconomics explains that taxing capital gains does not much affect the wealthy, who have their capital gains behind them and are principally concerned with maintaining their wealth. Its real impact is to suppress the initiative of Americans who are not yet wealthy, but have the talent and drive to create wealth, and thus benefit the economy." Furthering, that a high capital gains tax prevents capital from flowing to the bottom of the opportunity ladder, where risks are high. He concludes that the elimination of the tax, makes the most sense if the objective is to get capital to the grass roots under the socieo-economic ladder.

#### 2. Delink, McClelland ’16 of the Joint Committee on Taxation analyses the most recent data and find that more than 70% of families directly owned assets that can generate capital gains.

#### 3. Delink, realize that their statistic is reverse causal. Grubel ’01 of the Fraser Institute explains that income earners in the highest income bracket often have such high taxable income because in the particular year, they realized large capital gains. However, when you subtract their capital gains income from their total wealth, they’re often low or middle class.

Cards:

Jude Wanniski (University of California, Los Angeles), Polyconomics, 9-24-1991, ["Essays-910924&nbsp; A Democratic White House Scenario," http://www.polyconomics.com/essays/esy-910924.htm, DOA: 1-16-2018] // ATA

Ted Forstmann, whose career on Wall Street is the embodiment of entrepreneurial capitalism, argued in his Wall Street Journal essay, "Blame the Tax Code, Not Milken, for Junk Bonds," 12/13/90, that those who are at the bottom of the opportunity ladder have most to gain from elimination of the capital gains tax, and that those of wealth and status have the least to gain. By definition, they are already wealthy. "The capital gains tax is not a tax on wealth. It is a tax on one's ability to improve one's lot by creating wealth. Taxing capital gains does not much affect the wealthy, who have their capital gains behind them and are principally concerned with maintaining their wealth. Its real impact is to suppress the initiative of Americans who are not yet wealthy, but have the talent and drive to create wealth, and thus benefit the economy." That is, a high capital gains tax prevents capital from flowing to the bottom of the opportunity ladder, where risks are high. A capital gains differential permits capital to flow down to lower rungs on the ladder. Elimination of the tax, as Forstmann argued by this logic, makes the most sense if the objective is to get capital to the grass roots under the ladder. Imagine a horse race, with the favorite going off at even money, another at 2-to-l, another at 5-to-1, another at 10-to-l, another at 20-to-l, and the longest shot at 40-to-l. Imagine the 40-to-l horse wins, but when the bettors arrive at the pari mutuel window to collect, an IRS agent is on hand to skim all but $4 from a $2 bet. If the reward for risk-taking is confiscated, two things happen. Bettors stick to the front-runners, and long-shots never enter the race. In the extreme, there is only one horse and one bettor in the race. This, in fact, was the impulse behind the Soviet experiment with communism 70 years ago. If there is no risk-taking, there is no failure. All rewards are equal when there is only one company, one chairman, one board of directors, one bank. The distress associated with capitalism -- financial panics, bankruptcies, unemployment, poverty — can be avoided. In the United States today, as well as in most of the world, even as we celebrate the collapse of Communism, economic policy making in general favors the frontrunners and discourages the longshots. For the fourth consecutive year, new business start-ups in the U.S. have declined. Banks, which are a primary source of capital, have narrowed their flow to the most "creditworthy," those at the top of the heap. African-Americans and Hispanic-Americans, as classes the longest shots in the economy, are almost completely cut off from capital sources

Robert McClelland (is a senior fellow and works to apply an evidence-based approach to a variety of important policy issues. Currently, he is studying how investors react to changes in the tax rate on capital gains, and how the labor supply of couples responds to changes in individual tax rates. He has published articles in journals such the American Economic Review, Journal of Applied Econometrics, Journal of Public Economics, National Tax Journal, and Review of Income and Statistics. He is a member of the Conference on Research in Income and Wealth. He also regularly teaches econometrics at Johns Hopkins University. He received a BA in economics and environmental studies from the University of Santa Cruz and a PhD in economics from the University of California, Davis), Congressional Budgeting Office & Joint Committee on Taxation, August 2016, ["," https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51831-Capital\_Gains.pdf, DOA: 1-16-2018] // ATA

In 2010, more than 70 percent of families directly owned property designated under the Internal Revenue Code as capital assets—that is, assets that can be sold and that typically generate taxable capital gains or deductible losses when sold. Families’ capital assets included their homes, other real estate, privately owned businesses, stocks, corporate and government bonds (including Treasury bills and notes but excluding Treasury savings bonds), and mutual funds; those assets had a combined worth of $50 trillion. That amount does not include an additional $20 trillion of other family assets—such as the value of defined benefit and defined contribution retirement plans (for example, 401(k) plans) and balances in savings and checking accounts. When a capital asset is sold for more than its adjusted basis, the seller realizes a capital gain. (The adjusted basis is the amount of a taxpayer’s investment in an asset after adjustments to account for certain factors that change the amount of the initial investment for tax purposes; some factors, such as improvements in a property, increase the adjusted basis, whereas others, such as depreciation, reduce it.) When an asset is sold for less than its adjusted basis, the seller incurs a capital loss. If over the course of a year a family’s gains from all assets sold exceed its losses, those net gains can be subject to taxation; if, in contrast, a family’s losses exceed its gains, a portion of those net losses can be used to reduce the amount of other income that is subject to taxation. Most long-term capital gains (those realized on assets held for more than a year) are generally taxed at rates lower than those that apply to wage and interest income. In contrast, short-term gains are subject to the same income tax rates as wages and interest income. In 2010, taxpayers reported about $394 billion in short-term and long-term net capital gains, including those from sales of indirectly held assets (such as those owned by partnerships, S corporations, or mutual funds, or those managed by fiduciaries); they owed about $55 billion in federal income taxes on those gains. By comparison, the sum of reported net long-term gains and net long-term losses from the sale of directly held capital assets—the main focus of this report— amounted to $123 billion. In this report, the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) examine the distribution of capital assets and net capital gains and losses in 2010 by type of asset and by the income and age of the asset holder. The analysis of asset holdings is based on data from the Survey of Consumer Finances (SCF), a survey of the finances of U.S. families (consisting of a homeowner or renter, his or her spouse, and their dependent children) that the Board of Governors of the Federal Reserve System conducts every three years. To analyze capital gains reported by taxpayers on their returns, CBO and JCT used information from two different data sets compiled by the Internal Revenue Service (IRS). This report focuses on 2010 because it is the most recent year for which information was available from all three of those data sets at the time that the analysis in this report was undertaken.

Herbert G. Grubel (is a Senior Fellow at The Fraser Institute, and Professor Emeritus of Economics, Simon Fraser University. He has a B.A. from Rutgers University and a Ph.D. in economics from Yale University. He has taught full-time at Stanford University, the University of Chicago, and the University of Pennsylvania. He has published 16 books and 180 professional articles in economics dealing with international trade and finance and a wide range of economic policy issues), Fraser Institute, 2001, ["International Evidence on the Effects of Having No Capital Gains Taxes," https://www.fraserinstitute.org/sites/default/files/IntlEvidenceNoCapitalGainsTaxSec1.pdf, DOA: 1-17-2018] // ATA

What effect on income distribution? The argument in favor of a capital gains tax has two aspects. First, it suggests that increases in the value of assets upon realization provide their owners with resources that can be used, just like higher salaries, interest, or dividend incomes, to raise consumption expenditures. Horizontal equity in taxation requires that all increases in spending power be taxed equally, regardless of their origin. This reasoning underlay the recommendation by the Carter Commission in the 1960s that a capital gains tax be imposed, using the catchy slogan “a buck is a buck.” The Commission’s report in turn drew on the academic analysis of Simons (1938) and Haig (1921), which made a theoretical case for a comprehensive definition of the taxable income base, which included capital gains. The second argument in support of the capital gains tax rests on the principle of the “ability to pay.” This seductive slogan is the rallying cry of the political left, which considers it self-evident that persons earning $100,000 a year can afford to pay a higher proportion of their income than those earning only $20,000. The argument from the “ability to pay” has resulted in the progressive income tax system in Canada. It forces high-income earners to pay more than 50% on marginal increases in income while those at the bottom of the scale pay no taxes at all or rates on extra income of only about 20%. It is widely believed that only high-income earners make substantial capital gains on the grounds that lower income earners do not have savings to accumulate wealth and enjoy the capital gains it can bring. For these reasons, the capital gains tax is believed to fall mainly on high-income earners able to pay it. What arguments can be made in response to these justifications of a capital gains tax? First, the “buck is a buck” slogan is seen faulty by many because it does not distinguish an essential feature of capital gains that make them different from ordinary income. The following slogan makes this point succinctly: “tax the fruit of the tree but not the tree itself.” The idea that captial gains are different from income in this sense and, therefore, should not be taxed long dominated the tax policies of the United Kingdom and countries of its former empire like Australia, New Zealand, and Canada. The idea lost its grip only after the end of the second World War, when governments everywhere took on a much larger role in society. It was also used for a long time to fight against the imposition of a capital gains tax in the United States. The economic analysis underlying this notion of “fruit and tree” is that taxation should fall only on sources of income that are not part of society’s future productive capital essential to the maintenance of living standard. Under this principle, it is all right to tax profits, interest, and dividends but not the financial and real capital that give rise to this income. In a world without inflation, all capital gains by definition are equal to increases in the present value of the future income stream flowing from the asset. Therefore, a capital gains tax reduces an economy’s productive capacity and the future stream of income. In the presence of inflation, some capital gains simply reflect the higher cost of reproducing the capital. The taxation of such nominal capital gains reduces the country’s productive capacity even more severely than does the taxation of real capital gains. In addition, the taxation of such phantom capital gains is unfair since such a punitive confiscation of real property is inconsistent with the principles of horizontal equity and ability to pay. The “fruit-and-tree” analogy and the fact that capital gains taxation reduces the stock of productive capital provides another explanation of empirical phenomenon, noted above, that countries without capital gains have larger capital stocks and correspondingly higher labour productivity and incomes. Canadian politicians embraced the “buck-is-a-buck” slogan very happily when it first was developed in the Carter Commission Report in the late 1960s. It allowed them to defend their support for the tax by appealing to an easily understood and populist idea. Public-choice theory explains why demands for such a tax bring large electoral support. The number of voters with incomes below average and without capital gains in the 1960s was much greater than the number of voters with high incomes and potential capital gains. In effect, the politicians offered voters with lower incomes a transfer of income at the expense of the “rich.” The electoral success of the advocates of the tax led to its adoption in 1971. The same reasons that made the tax attractive to politicians in the first place prevent its elimination now. The conventional wisdom suggests that the number of voters with low incomes and no capital gains is much greater than that of voters with high incomes and capital gains. Therefore, no political party can expect to win with a policy proposal that violates the interest of the largest segment of the population. How correct is this conventional wisdom? Simple statistics support it. Canadians with incomes of more than $100 thousand in 1992 represented 7.9% of all taxpayers. They paid 77.9% of all capital gains taxes. The remaining 92.1% of voters paid few or no capital gains taxes. However, this figure and the conventional wisdom are incorrect for two reasons. First, the ownership of mutual funds has spread enormously in recent decades, especially among those with modest incomes. Canadian tax laws require that capital gains made as a result of the operation of mutual funds have to be reported and are subject to taxation in the owners’ annual income-tax return. This tax burden tends to come as a complete surprise to most new owners of mutual funds. (It should be noted that the tax is not payable on mutual funds held in tax-exempt Registered Retirement Savings Plans). It is clear that the tax on the realized gains falls to a considerable degree not on the rich but on Canadians with modest and even low incomes, who in recent years have increasingly become the owners of mutual funds both in, and outside, their tax sheltered retirement plans. Second, income earners in the highest income bracket often have such high taxable income because in the particular year they realized large capital gains. Their other, normal income before and after the year in which they realized their gains often put them into the middle-income and even lower-income brackets. Here is how this happens. Consider a person with a modest income, who has accumulated some shares and real estate to provide an income upon retirement. When such a person dies, the capital gains are deemed realized and the tax is due. Another example involves a person who owns a small business, like a restaurant or a garage. Upon retirement, the business is sold. After much hard work and plowing profits back into the business over a long time, the sale gives rise to a substantial taxable capital gain and tax obligation. Yet the often modest income of the owners of such small businesses hardly qualifies them as “rich.” Capital gains arising from circumstances like these certainly are not in the conventional wisdom, which has it that capital gains taxes are paid by the very rich. The analysis in the preceding paragraph suggests that the elimination of the capital gains tax would not allow the “rich to get richer.” Instead, it would permit many Canadians with moderate incomes to enjoy a higher living standard in their old age. How important is the challenge to the conventional wisdom implicit in the above examples? Joel Emes at The Fraser Institute quantified the phenomenon, using statistics supplied by Revenue Canada for 1992 (SPSD/M 6.1). He subtracted capital gains from taxpayers’ reported incomes and then classified these taxpayers according to the size of their remaining other income. He found that Canadians with such other income above $100,000 paid only 26.8% of all capital gains taxes. People with other incomes below $50,000 paid 52.1% of the total. In sum, the equity arguments in favour of capital gains taxation—“a buck is a buck” and “ability to pay”—are politically appealing and explain why Canada enacted a capital gains tax. However, this appeal is reduced substantially by the little-known fact that the bulk of capital gains taxes is paid by people who have modest incomes and hold mutual fund shares. More important, many taxpayers have modest incomes in years other than the one in which they enjoy large capital gains. In addition, for anyone concerned about the absolute living standards of the low-income earners, “taxing the tree as well as the fruit” in the longer run reduces the living standards of the very people the tax is supposed to help. I believe that for these reasons, the traditional equity argument in favour of retaining the tax has lost much of its validity and political appeal in recent years as Canadians in increasing numbers have become capitalist holders of financial assets directly or through their pension funds. The political appeal has also declined along with the much-diminished rhetoric about social classes of workers and capitalists that occurred with the end of the Communist empires. Politicians might well be surprised to find strong electoral support for the removal of the tax, especially if they explain effectively the basic facts about who pays the tax and what effects it has on income in the longer run. The absence of public objections to the lowering of the tax in 2000 supports this conclusion.

### A2 Equalize w/ Income Tax

#### First: Equalization would be punitive due to double taxation Moore 15 explains that publicly held companies have to pay corporate income tax at a rate of 35 percent. Capital gains tax is a second tax on that income when the stock is sold. So, the actual total tax rate on capital gains income is closer to 40-50 percent.

#### Second: Taxing capital gains like income removes incentives to keep that money in the economy Graham 17 states that reasonable Democrats and Republicans readily admit that it doesn’t make sense to tax capital gains like we do incomes. Fiscal and tax policy experts understand idle money should be invested or it will sit on the sidelines. With the right type of incentives, idle capital will continue to be deployed for growth. Putting money to work puts people to work

[Stephen; Economist and Commentator; Five Myths About Capital Gains Taxes; TownHall; 4 August 2015; https://townhall.com/columnists/stephenmoore/2015/08/04/five-myths-about-capital-gains-taxes-n2034046; retrieved 8 January 2018]

Clinton says she would merely tax income from capital at the same rate that middle-class Americans have taken from their paychecks. She would tax capital gains as ordinary income for those who make over about $450,000 a year. But this would make taxes on capital income punitive and here's why. First, most capital gains come from the sale of financial assets such as stocks. But publicly held companies have to pay corporate income tax at a rate of 35 percent. Capital gains tax is a second tax on that income when the stock is sold. So the actual, total tax rate on capital gains income is closer to 40-50 percent and Clinton would raise that to 60 percent.

[Robert S.; President and CEO of ROI Global Partners; Don’t Call a Capital Gains Tax Hike ‘Reform;’ American Spectator; 29 November 2017; https://spectator.org/dont-call-a-capital-gains-tax-hike-reform/; retrieved 8 November 2017]

Reasonable Democrats and Republicans readily admit that it doesn’t make sense to tax capital gains like we do incomes. Fiscal and tax policy experts understand idle money should be invested or it will sit on the sidelines. With the right type of incentives, idle capital will continue to be deployed for growth. Putting money to work puts people to work.

### A2 Taxed as Income

#### The climate of the political means this the most unrealistic outcome. Steven Mufson 11’ explains 3 reasons.

#### The house majority leader has been courted by the financial industry as they have donated him millions in campaign contributions.

#### Low capital gains taxes are super popular among political contributors, and that there is an enormous amount of lobbying that takes place in favor of cutting capital gains. Whereas there is very little lobbying for the other side means that congress will always have incentive to keep taxes low.

#### Members of congress themselves are well off meaning that they are more likely to be sympathetic to the argument for a low tax.

#### This is not necessarily a bad thing, Because the top 1% accounts for most of the capital gains realized in the US, Henry J Aaron found that boosting the capital gains tax to above 30% increases governmental revenues by 144 billion a year and cuts inequality in half.

**Steven Mufson**, Washington Post, 9-11-2011, ["Capital gains tax rates benefiting wealthy are protected by both parties," https://www.washingtonpost.com/business/economy/capital-gains-tax-rates-benefiting-wealthy-are-protected-by-both-parties/2011/09/06/gIQAdJmSLK\_story.html, DOA: 1-20-2018] // ATA

**Now House majority leader, Cantor is even more central in the tax debate and is still courted by the financial industry. “Leader Cantor believes in lower taxes across the board for workers, small-business people and job creators,”** said Cantor’s spokeswoman, Laena Fallon. Last year, **his two fundraising committees hauled in nearly $2 million from securities and investment firms and real estate companies.** Cantor has also received substantial campaign contributions from private equity firms. [KKR](http://washpost.bloomberg.com/marketnews/stockdetail/?symbol=KKR) was his fifth-largest contributor in the last election cycle, giving $52,600. “**Wall Street loves the preferential capital gains rate. All of America’s 20- or 30 million wealthy small investors love capital gains rates**,” Sullivan said. “**It’s just a tremendously popular item with political contributors. It’s something that directly impacts every wealthy household in America.”**

**Steven Mufson**, Washington Post, 9-11-2011, ["Capital gains tax rates benefiting wealthy are protected by both parties," https://www.washingtonpost.com/business/economy/capital-gains-tax-rates-benefiting-wealthy-are-protected-by-both-parties/2011/09/06/gIQAdJmSLK\_story.html, DOA: 1-20-2018] // ATA

**The 400 richest taxpayers in 2008 counted 60 percent of their income in the form of capital gains** and 8 percent from salary and wages. The rest of the country reported 5 percent in capital gains and 72 percent in salary. The result, Hacker says, is that the **lobbying winds up being lopsided, too**. “The **amount of lobbying that takes place on tax policy from the deep-pocketed interests that have the most at stake is enormous,” Hacker said. “There’s very little representation on the other side.” “Don’t forget,” he added, “that members of Congress themselves, particularly senators, are well off and they’re more likely to be sympathetic to the argument for low capital gain**

**Henry J Aaron**, No Publication, 2015, ["," https://www.brookings.edu/wp-content/uploads/2016/06/taxing-the-rich-you-bet-aaron.pdf, DOA: 1-20-2018] // ATA

For illustration, however, I assume that if the top rate on ordinary income were increased to 50 percent, **the tax rate applied to capital gains** and dividends would go up by the same amount**, from 20 percent to 30.4 percent**.6 These two changes **would boost revenue by $144 billion a year or $2.0 trillion over ten years**. If that revenue were distributed to the bottom 20 percent of the income distribution, the rate increases combined with the transfers **would lower the 99/10 income ratio by 110 percent** as much as it is by the entire current tax system. As noted, the 99/10 ratio misses nearly all of the tax effects of raising the top bracket. If the top bracket rate of 50 percent is extended to the highest-income 1 percent of tax filers, the impacts on inequality are increased. Over the ten-year budget window, applying the 50 percent rate to the top 1 percent of all filers and boosting the rate on capital gains and dividends from 20 to 30.4 percent would raise $2.3 trillion. If this revenue were distributed to the bottom 20 percent of the income distribution, **the gap between the incomes of people at the 99th and 10th percentile would be cut by almost half from its pre-tax level.**

### A2 Tax Sheltering

#### Even if you buy that Tax shelters increase, they aren’t a reason to negate for two reasons

#### The evidence that they read you in case indicates that they exist right now, so if anything their impacts are non-unique

#### They’re fighting fire with fire. Weinberg of the Washington Post 15 writes that the way to properly combat the problem of tax sheltering is to tighten tax codes, rather than keeping a world where the capital gains tax exists.

Cards:

[Ari I. Weinberg, 3-1-2015. "Is It Fair to Tax Capital Gains at Lower Rates Than Earned Income?." WSJ. https://www.wsj.com/articles/how-should-capital-gains-be-taxed-1425271052] //BH

Critics raise a number of other arguments for raising capital-gains rates. They say lower rates provide perverse incentives, spurring people to go into certain jobs that are driven by capital gains instead of doing more productive work. And, they argue, lower rates lead people to spend great time and effort on unproductive things like setting up tax shelters. **Yet, as we’ve seen, capital gains are a way to reward investors in crucial industries. Do we want to risk cutting off that supply of funds to keep some people from becoming, say, hedge-fund managers? If we want to eliminate tax shelters, meanwhile, we should tighten the tax code, not raise taxes on capital gains.** Then there’s an argument about fairness. A low capital-gains rate, critics say, defeats the idea of progressive taxation, since mostly wealthy individuals take advantage of the lower rate. The best way to handle the situation is to aim for progressivity with respect to consumption—what people take out of society. Ultimately, my preference is for a system where assets can be shifted around within a 401(k)-type structure. That means investors would be able to move their money from one investment to another, without facing a tax liability until they actually withdrew the money and spent it. There should be no limits to contributions to these plans, and no restrictions on the date of withdrawal.

### A2 Tax Havens

## A2 US Econ

### A2 Does not Decrease Investment

#### Turn, investment increases in an aff world. Wang of North Western University writes that although raising taxes would decrease cash flow, it also decreases the risk in investments because the government absorbs a larger chunk of losses. That’s really important, because she concludes that raising tax rates would ultimately spur more investment.

#### Turn: Stephan Moore of the Library of Economics and Liberty writes that the historical evidence suggests that when the capital gains tax is reduced, locked-in capital is liberated and the revenues from the tax rise.

#### Turn, Mack ‘99 of the Congressional Budgeting Office explains that because of the incentives created by the capital gains tax, there are more than $7.5 trillion dollars in uncollected gains. Affirming frees up trillions in locked up assets to be funneled back into the economy.

#### Turn, Moore ’01 of the Institute for Policy Innovation explains, when the capital gains tax was cut in ’97 spurred a 50% increase in start-up funding.

#### Turn, Silvia ’95 of CATO examines 50 studies and concludes that abolishing the capital gains tax would unlock hundreds of billions of dollars in unrealized capital gains, thus promoting efficient allocation of capital, expanding economic opportunities for the most economically disadvantaged workers by bringing new jobs and new businesses to capital-starved areas.

#### Turn, Bock ’17 of the University of Munich explains that decreasing the capital gains tax by 1 percentage point, funds over 32 additional US companies.

#### Turn, Brown ’16 of Iowa State University explains that abolishing the capital gains tax would increase overall R&D investment by 5%. Thankfully, Prieto ’17 of Georgetown University explains that a 1 percentage point increase in R&R investment, increases GDP growth by 2.28 percentage points, in the long term.

Connie Mack, Congressional Budget Office, 8-1-1999, ["Cutting Capital Gains Tax Rates: The Right Policy for The 21st Century," https://www.jec.senate.gov/public/\_cache/files/1c3a5162-63fa-411e-8e4b-f85e910869a0/cutting-capital-gains-tax-rates-whitman-august-1999.pdf, DOA: 1-16-2018] // ATA

The enormous value of unrealized capital gains reveals the extent of the lock-in effect. By one calculation, on average “only 3.1 percent of the stock of accrued gains was realized in any given year during the 1960-1984 period.”32 Moreover, **some studies suggest that more than $7.5 trillion exist in unrealized capital gains. Therefore, lowering capital gains tax rates and indexing gains for inflation could “unlock” hundreds of billions of dollars of tied up assets**.33 For example in 1996, by one assessment, there was approximately $3.5 trillion in unrealized capital gains just in common stocks, excluding mutual funds and pensions.34 With the dramatic rise in stock prices since 1996, even with the tremendous surge in capital gains realizations since the 1997 tax cut, that lockedin amount has increased to at least $4 trillion and probably more than $5 trillion. **By freeing locked-in assets such as these, lowering capital gains tax rates and indexing gains for inflation would increase economic efficiency while substantially expanding the tax base. Investors would invest this emancipated capital in new companies, creating more jobs, developing innovative goods and services, and spurring greater economic expansion**

**Stephen Moore**, Institute for Policy Innovation, 10-11-2001, ["A Capital Gains Tax Cut: The Key to Economic Recovery; IPI Issues; Institute for Policy Innovation," http://www.ipi.org/ipi\_issues/detail/a-capital-gains-tax-cut-the-key-to-economic-recovery, DOA: 1-15-2018] // ATA

The lesson here is that the impact of tax changes cannot be properly predicted without assessing how the tax policy changes will influence the behavior of workers, entrepreneurs and investors. All over the world tax rates are falling as political leaders realize that high tax rates do not redistribute income, they redistribute people. The static economic model used by the Joint Tax Committee and the Congressional Budget Office should be discarded because it has proven again and again that it has no predictive powers. The capital gains tax cut of 1997 corresponded with two other positive economic trends. First, risk capital funding for new business start-ups increased by nearly 50 percent between 1997 and 2000. If we want an investment-led recovery, then capital gains cuts are crucial. Here is the data for the venture capital funding explosion after the capital gains cut:10

**Stephen Moore and John Silvia**, Cato Institute, 10-4-1995, ["The ABCs of the Capital Gains Tax," https://www.cato.org/publications/policy-analysis/abcs-capital-gains-tax, DOA: 1-14-2018] // ATA

**This study examines** the historical experience with the capital gains tax in the United States, as well as the findings of more than **50 economic studies on capital gains taxation**. **We conclude that a capital gains tax cut would** substantially raise tax collections and increase tax payments by the rich**; increase the rate of capital formation, economic growth, and job creation** through the year 2000; **unlock hundreds of billions of dollars of unrealized capital gains, thus promoting more efficient allocation of capital; expand economic opportunities for the most economically disadvantaged workers by bringing jobs and new businesses to capital-starved areas, such as America’s inner cities**. Finally, the study argues **[and] that the capital gains tax is so economically inefficient—because of its punitive effect on entrepreneurship, thrift, and investment—that the optimal economic policy for the United States would be to abolish the tax entirely.**

**Increasing taxes**

**Carolin Bock**, University of Munich, 4-26-2017, ["The Capital Gains Tax: A Curse but Also a Blessing for Venture Capital Investment," https://rationality-and-competition.de/wp-content/uploads/discussion\_paper/30.pdf, DOA: 1-14-2018] // ATA

We analyze our propositions using ordinary least squares (OLS) regression models. In the first set of analyses with the data aggregated at the country–year level, we consider the effect of the capital gains tax on the number of start-ups receiving venture capital for the first time. For this analysis, the estimation method is an OLS regression weighted by the population size. In the second set of analyses of the firm–level data, the estimation method is simple OLS. In particular, this estimation signifies that a tax increase of one percentage point leads to a reduction of 32.14 companies receiving their first investment for a population such as that of the United States (with 309 million inhabitants in 2010). In other words, this effect implies 2.64 percent fewer companies relative to the median of 1,215 companies receiving venture capital per year for the first time in the United States over our sample period. This finding supports Propositions 1 and 2, which predict a reduced probability of receiving venture capital if the capital gains tax rate is increased.

James R. Brown (Iowa State University, College of Business, Department of Finance) and Gustav Martinsson (Royal Institute of Technology and Swedish House of Finance), 2015 Innovation, Finance and Law Conference: Fostering Innovation at the Toulouse School of Economics, July 27, 2016, ["Taxing Capital, Stunting Growth? Capital Income Taxes, Costly Equity Finance, and Investment in R&D," https://pdfs.semanticscholar.org/b28c/be53fb7a5aedc4f8135e7da1818e517185f5.pdf, DOA: 1-30-2018] // ATA

This study departs from prior work on the real effects of payout taxation by focusing on intangible investments in research and development (R&D) rather than the accumulation of physical capital. This shift in focus matters: in both a broad international panel and in the years surrounding the sizeable 2003 US dividend tax cut, we find that **lower taxes on** dividends and **capital gains have a significant positive impact on R&**D **investments** but, consistent with other recent work, little or no effect on investment in fixed capital. **Reducing the effective tax rate on corporate payouts from 20% to 0% increases the overall average (long-run) rate of industry-level R&D investment by approximately 5%**, with substantially stronger effects in sectors and firms that depend more on external equity finance, indicating the economic consequences of capital income taxation are considerably larger than previously thought.

Leonel José Prieto (Graduate School of Arts and Sciences of Georgetown University in partial fulfillment of the requirements for the degree of Master of Public Policy in Public Policy), Georgetown University, April 2017, ["INNOVATION AND ECONOMIC GROWTH: CROSS-COUNTRY ANALYSIS USING SCIENCE & TECHNOLOGY INDICATORS," https://repository.library.georgetown.edu/bitstream/handle/10822/1043935/Prieto\_georgetown\_0076M\_13577.pdf?sequence=1, DOA: 1-30-2018] // ATA

To estimate the effect of innovation on economic growth in my sample of countries, I used fixed-effects and lagged R&D expenses as percentage of GDP have been for six years. Table 3 indicates that the coefficient of R&D expenses as percentage of GDP is positive and statistically significant. According to these results a one percentage point increase in R&D expenditures as percentage of GDP increases GDP growth by 2.28 percentage points, lagged to six years and controlling for gross enrollment ratio in secondary, foreign direct investment, and labor force. This might suggest that successful investments in R&D take 6 years to provide returns in the form of GDP growth, controlling for the aforementioned variables. Trademarks’ applications filed have a negative and statistically significant effect. A one percent increase in trademarks’ applications decrease GDP growth by 5/1,000,000 percentage points, controlling for gross enrollment ratio in secondary, foreign direct investment, and labor force. Even though this inverse relationship is unexpected, it can be stated that its impact is relatively small.

James R. Brown, 27 July 2016, Iowa State University “Taxing Capital, Stunting Growth? Capital Income Taxes, Costly Equity Finance, and Investment in R&D∗” //JN

https://pdfs.semanticscholar.org/b28c/be53fb7a5aedc4f8135e7da1818e517185f5.pdf

R&D drives long-run growth and is financed extensively with external equity, making it a potentially important mechanism linking capital income taxation with economic performance. Exploiting variation in corporate payout taxes in a broad international panel and in the years surrounding the 2003 US dividend tax cut, we document a robust negative association between payout tax rates and investment in R&D. **Higher taxes on capital income (dividends and capital gains) have a stronger negative effect on R&D in more equity-dependent sectors and firms**, but little impact on fixed capital spending, consistent with the equity financing mechanism we emphasize. The economic consequences of payout taxation are much larger than prior research suggests.

James R. Brown, 27 July 2016, Iowa State University “Taxing Capital, Stunting Growth? Capital Income Taxes, Costly Equity Finance, and Investment in R&D∗” //JN

https://pdfs.semanticscholar.org/b28c/be53fb7a5aedc4f8135e7da1818e517185f5.pdf

This study documents an economically important negative relation between tax rates on capital income (dividends and capital gains) and R&D investment. Our analysis is based on two main ideas: i) **taxing corporate payouts raises the cost of capital for firms that are dependent on external equity at the margin**, and ii**) R&D should be particularly sensitive to the equity-financing distortion that results from payout taxation because firms cannot perfectly substitute debt for (costly) external equity when financing risky, intangible activities**. Using a broad panel of countries and industries, we find strong evidence that **higher rates of payout taxation have a negative impact on R&D, particularly in industries where the typical firm is more dependent on external equity to finance investment**. We also find support for these inferences by studying firm-level changes in R&D activity around the introduction of the 2003 dividend tax cut in the US. We are not aware of any prior studies that evaluate the real consequences of payout taxation by focusing specifically on R&D. This shift in focus is important because the real effects of payout taxation should be concentrated in the activities that are most equity dependent. Indeed, one implication of our study is that by focusing almost exclusively on investment in physical assets, prior research may readily understate (or miss entirely) the most important (long-run) economic effects of payout taxation. R&D is of interest not only because it is a risky investment that is equity-dependent in nature, but also because it is widely viewed as a critical driver of innovation, creative destruction, and technological change in modern economies (e.g., Aghion and Howitt (1992)). Thus, the negative association between payout tax rates and R&D investment that we document suggests payout taxes have much broader macroeconomic implications than prior research indicates.

Clare Wang, 5/5/16, Kellog Insight, “Can Raising the Capital Gains Tax Rate Ever Attract Investors?”, <https://insight.kellogg.northwestern.edu/article/can-raising-the-capital-gains-tax-rate-ever-attract-investors>, //BB

The “business as usual” of tax capitalization—in which the cost of capital for firms increases if the capital gains tax rate increases—comes from the blow that tax hikes deal to investors’ cash flows. This cash-flow effect “is intuitive to understand,” Wang says. Less noticed is a subtler consequence, which Wang and her coauthors call the “risk effect.” This risk effect describes how higher capital gains tax rates result in the government absorbing some of the risk inherent within those very same cash flows, because investors can offset their taxable gains with losses. “Let’s say you own stock,” Wang explains. “As an investor, you normally care about the stream of cash flows in terms of dividends or the value of the stock when you sell. But you also care about variability in that cash flow and in the value of the stock as it goes up and down. That’s the risk. It’s true that higher capital gains taxes will decrease your cash flow. But it also decreases your risk by lowering the variability of the cash flows. The government takes a larger chunk of any gains, but at the same time, they also absorb a larger chunk of any losses.” In certain situations, the risk-absorbing effect of higher capital gains taxes can be a genuine benefit, not just a cold comfort. One such circumstance is when investors bear bigger risks because firms are exposed to systematic risks that cannot be diversified away. Consider retail clothing stores, whose sales inevitably decrease during a recession, for instance, as opposed to a utility company, whose performance is unlikely to vary with changes in the overall economy. “If you hold a portfolio of stocks with high systematic risk that you cannot get rid off, then the risk absorption that comes through capital gains taxes will be more valuable to you,” Wang explains. This was borne out in a dataset of capital gains tax rates and expected returns gathered from more than 25,000 firms from 26 countries between 1990 and 2004. For firms with high systematic risk, or during periods when market risk premiums were high or the risk-free rate on investments such as Treasury bonds was low, the authors find that the generally positive relation between capital gains taxes and expected returns falls apart. In these situations, increasing the capital gains tax rate has a weaker impact on how expensive it is for firms to raise money from investors. And it could even turn out such that a hike in the capital gains tax rate actually makes certain firms more attractive to investors. For example, when the costs of bearing risk are high, investors are willing to trade a reduction in their future cash flows for less volatility in them.

Stephan Moore, “Capital Gains Taxes”, Library of Economics and Liberty, <http://www.econlib.org/library/Enc/CapitalGainsTaxes.html> //BB

The historical evidence suggests that when the capital gains tax is reduced, locked-in capital is liberated and, at least temporarily, the revenues from the tax rise. For example, after the 1981 capital gains tax was cut from 28 to 20 percent, real (all figures in this section are 2004 dollars) federal capital gains tax revenues leapt from $29.4 billion in 1981 to $36.6 billion by 1983—a 24 percent increase. After the capital gains tax was cut in 1997, the receipts from capital gains taxes rose from $66.9 billion in 1996 to $114.7 billion by 1999, an increase of more than 71 percent. Preliminary data suggest that the capital gains tax cut of 2003 to a rate of 15 percent has also caused tax revenues to increase, at least in the first year (see Figure 1). Conversely, total asset sales of taxable capital gains fell from $575 billion in 1986, the year before the capital gains rate was raised (from 20 back to 28 percent), to $246 billion in 1989. Investors were unwilling to sell stock and other taxable assets at the new higher tax rate. Reducing the capital gains tax rate appears also to lead to higher stock prices. The stock market boomed in the 1980s after the 1981 capital gains tax cut; it boomed to new heights in the late 1990s after the Clinton capital gains rate cut, and then again in 2003 after George W. Bush signed his capital gains tax cut into law. Reducing the capital gains tax rate appears also to lead to higher stock prices. The stock market boomed in the 1980s after the 1981 capital gains tax cut; it boomed to new heights in the late 1990s after the Clinton capital gains rate cut, and then again in 2003 after George W. Bush signed his capital gains tax cut into law. It may seem a paradox that a lower capital gains tax typically leads to more tax revenues collected from the tax. But, really, there is no mystery here. As mentioned, the capital gains tax is an easily avoided tax. When the tax rate is high, investors simply delay selling their assets—stocks, properties, businesses, and so on—to keep the tax collector away from their door. When the capital gains tax is cut, asset holders are more likely to sell. Moreover, because a lower capital gains tax substantially lowers the cost of capital, it encourages risk-taking and causes the economy to grow faster, thus raising all government receipts in the long term.

### A2 Taxation Inevitable

#### Capital gains taxes impose greater economic costs than do other forms of taxation Clemens 14 explains that CGT create an incentive for investors to hold onto current assets even though more profitable and productive investments exist, and lowers the return that entrepreneurs, venture capitalists, and other investors derive from risk-taking, innovation, and work effort. These diminished incentives caused by capital gains taxes impede the turnover of older, less profitable investments, reduce the supply of entrepreneurs and the investors that finance them, and reduce the overall level of accumulated capital.

Jason Clemens, Executive Vice President, Charles Lammam, Associate Director, Tax and Fiscal Policy and Matthew Lo, M.A. Candidate, Economics, University of British Columbia, “The Economic Costs of Capital Gains Taxes in Canada,” Fraser Institute, 10— 14, p. 12, www.fraserinstitute.org/sites/default/files/economic-costs-of-capital-gains-taxes-in-canada-chpt.pdf, accessed 1-1-18.

All taxes impose efficiency (economic) costs on society because they distort the behaviour of individuals, families, and businesses. Numerous studies— both academic and commissioned by governments—have estimated the economic costs of different types of taxes. The research relies on what is referred to as the marginal efficiency cost. This methodology provides a means to estimate the cost of different taxes by calculating the efficiency cost of raising one additional dollar of revenue. The goal is to understand what types of different taxes impose the least cost on the economy. As discussed, the evidence shows that capital gains taxes bring considerable economic costs. This type of taxation reduces the after-tax rate of return on capital investments, creates an incentive for investors to hold onto current assets even though more profitable and productive investments exist, and lowers the return that entrepreneurs, venture capitalists, and other investors derive from risk-taking, innovation, and work effort. These diminished incentives caused by capital gains taxes impede the turnover of older, less profitable investments, reduce the supply of entrepreneurs and the investors that finance them, and reduce the overall level of accumulated capital. The empirical literature on marginal efficiency cost finds that capital-based taxes impose greater economic costs than other forms of taxation. One of the most widely cited calculations of marginal efficiency costs are those by Dale Jorgensen and Kun-Young Yun (1991). The authors estimate the marginal efficiency costs of select US taxes and find that capital-based taxes (such as capital gains taxes) impose a marginal cost of $0.92 for one additional dollar of revenue compared to $0.26 for consumption taxes.

### A2 Stock Selloff

#### The 1997 cut shows that sell off isn’t dramatic- 2 studies found no immediate selloff and one study found a 1.3% decline in price but then a rebound the following day. Shows that transaction costs are enough

**Douglas A. Shackelford**, NBER Reporter: Research Summary, 2004, ["," http://www.nber.org/reporter/fall04/shackelford.html, DOA: 1-17-2018] // ATA

Jennifer Blouin, Jana Raedy, and I also examine IPOs to test price pressure arising from holding period effects.[(12)](http://www.nber.org/reporter/fall04/shackelford.html#N_12_) On June 24, 1998, the joint Senate-House conference committee released its version of the IRS Restructuring and Reform Act of 1998. **The conference bill unexpectedly reduced the marginal tax rate on capital gains from 28 percent to 20 percent for individual investors who had held shares for at least 12 months**, but not more than 18. We compare firms whose initial public shareholders immediately benefited from the reduction to other IPO firms to determine whether the pent-up demand to sell by affected shareholders was enough to create downward price pressure in the equity markets**. We find that immediately affected firms recorded mean, incremental, one-day stock price declines of 1.3 percent amid heavy trading. However, the tumble was temporary with prices rebounding on the next trading day. The results imply that transaction costs are large enough to prevent investors from entering the market immediately and fully offsetting the downward price pressure from individuals selling off shares at the first possible tax-favored date**. However, the tax-induced drift from fundamentals lasted only one day, on average. **This finding is consistent with Reese's IPO study but contrasts with my work with Lang where we found no evidence of a sell-off when capital gain tax rates were reduced unexpectedly in 1997**.

**Mathew Kini**, No Publication, 2011, ["," https://www.cob.calpoly.edu/undergrad/wp-content/uploads/sites/3/2017/10/Top-Senior-Project-Sp2011-Kinni.pdf, DOA: 1-22-2018] // ATA

Thankfully, a lot of studies have tried to measure the actual elasticity of response due to this behavior change, so we have some indication that Feenberg and Summers weren’t too far off the ball even while not accounting for it. In a paper entitled Measuring Permanent Responses to Capital-Gains Tax Changes in Panel Data, Leonard Burman and William Randolph try to reconcile the differences between the “disparate statistical estimates of the elasticity of capital-gains realizations with respect to the marginal tax rate on capital gains” that results from using different types of statistical analysis (Burman & Randolph, 1994)4 . Their general observation was that “T**he elasticity of capitalgains realizations with respect to permanent tax changes is much smaller than transitory response” (Burman & Randolph, 1994)4 . This point is agreed to in general by many different economists, including for example Piketty and Saez (the same Piketty and Saez who were criticized by Alan Reynolds) who had this to say in a rebuke to Reynolds’ criticism: “The emerging consensus is that there can be substantial responses in the short-run due to retiming of income such as realizing capital gains before a tax rate increase, but that the long-term response is small**

### A2 Reduces Deficit

#### Debt doesn’t matter. Michael Cohen writes in 2012 that the American debt, which is already really high, hasn’t had any effect on the economy or American primacy. There is no impact to this impact.

#### Capital gains taxes cut revenue by slowing growth Foster 10 explains that the CGT does create new revenues however those revenues, at best, offset the tax revenue lost from other sources due to reduced total income, output, and jobs in the economy.

#### Revenue losses would be offset by increased investment, leading to economic growth Campbell 09 states that investment growth would jump 3 percent per year for the first 3 years after abolishing the capital gains tax resulting in a higher level of investment. The static one-year revenue losses would be offset by increased investment, which leads to higher economic growth.

#### Estimates about revenue fail to take in account other factors Foster 10 quantifies that reduced total income, output, and jobs arise from a capital gains tax. Realize that official revenue estimates explicitly exclude any changes in other tax receipts that result from lower levels of output and income. To this extent, the official estimates are static and fundamentally deficient and misleading because changes in economic performance can substantially affect the full gamut of federal revenue sources, especially individual and corporate income tax receipts and payroll tax receipts.

#### Capital gains taxes do not increase revenue and only drive capital overseas Furchgott-Roth 15 explains that high rates of tax on capital gains have negative effects on the economy by reducing U.S. investment or driving it overseas. If firms pay more in capital gains taxes in America, , they would make fewer investments-- especially in the businesses or projects that most need capital -- and they would hire fewer workers, many of them middle-class.

#### Turn because evidence suggests that capital gains tax reductions tend to increase tax revenue Bloomfield 17 explains that after capital gains were reduced from 20% to 15% in 2002-03, realization of capital gains had more than doubled (up 151%) and by 2005-06 tax receipts were up by 81%.

Foster, J.D. “Obama's Capital Gains Tax Hike Unlikely to Increase Revenues.” The Heritage Foundation, 24 Mar. 2010, www.heritage.org/taxes/report/obamas-capital-gains-tax-hike-unlikely-increase-revenues.

President Obama has proposed raising the capital gains tax rate to generate billions in new revenues for the federal government. However, according to data included in the President’s own budget, if implemented this tax increase would—at best—offset the tax revenue from other sources that would be lost because of reduced total income, output, and jobs in the economy. Thus, the President is intentionally sacrificing jobs in the pursuit of his own notions of fairness with little or no hope of increasing revenues in the process. Further, this proposal is coupled with a proposed dividend tax rate hike that would also cost jobs for little or no gain in revenues. If the President is serious about making jobs his "number one priority,” he should instead propose reducing the capital gains and dividend tax rates to stimulate the economy.

[Karen A., Ph.D., Policy Analyst; Guinevere, Research Programmer in the Center for Data Analysis; Sustainable Economic Stimulus: Repeal Capital Gains and Dividend Taxes; The Heritage Foundation; 3 February 2009; https://www.heritage.org/trade/report/sustainable-economic-stimulus-repeal-capital-gains-and-dividend-taxes; retrieved 12 January 2018]

The Tax Policy Advisers Dynamic General Equilibrium Model[5] projects that investment growth would jump to 3 percent per year for the first three years after a repeal of capital gains and dividend taxes before returning to the baseline growth of 2 percent per year. This growth would bring the economy to a new, higher level of investment. The static one-year revenue losses would be offset by increased investment, which leads to higher economic growth. The model predicts that GDP would grow at a rate of 2.03 percent for the first three years compared to a baseline steady state of 2 percent growth. However, by year four, GDP growth reaches a new steady state growth rate of 2.1 percent per year as the increased growth in investment begins to pay off by expanding the economy's productive capacity. [6] Due to the power of compounding, even small increases in growth, if sustained, lead to large changes over time when applied to a $12 trillion economy. Increased investment that leads to a more productive economy would strengthen the U.S. economy, making its workforce more competitive in the global marketplace.

J.D.; Ph.D.; Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation; Obama’s Capital Gains Tax Hike Unlikely to Increase Revenues; 24 March 2010; https://www.heritage.org/taxes/report/obamas-capital-gains-tax-hike-unlikely-increase-revenues; retrieved 8 January 2018]

Economists have debated for years how a higher capital gains tax rate affects receipts from the capital gains tax. However, perhaps more important for federal revenues are the deleterious effects on the real economy—reduced total income, output, and jobs—arising from a higher capital gains tax rate. The Administration’s official revenue estimates explicitly exclude any changes in other tax receipts that result from lower levels of output and income. To this extent, the official estimates are static and fundamentally deficient and misleading because changes in economic performance can substantially affect the full gamut of federal revenue sources, especially individual and corporate income tax receipts and payroll tax receipts.

Diana Furchgott-Roth, Director, Economics21, Manhattan Institute and former Chief Economist, U.S. Department of Labor, “Raising Taxes on Capital Hurts the Middle Class,” ECONOMICS21, 1—19—15, https://economics21.org/html/raising-taxes-capital-hurts-middle-class-1215.html, accessed 1-2-18.

With the proceeds, Mr. Obama wants to provide an additional tax credit to two-earner couples; to reduce student loan payments; and to end tuition payments for attendance at community college. Some of these are worthy goals. But higher capital gains tax rates rarely result in more revenue, because capital gains realizations can be timed. When rates go up, people hold on to their assets rather than selling them, expecting that rates will go down at some point. In addition, higher rate would have negative effects on the economy by reducing U.S. investment or driving it overseas. If firms pay more in capital gains taxes in America, they would make fewer investments-- especially in the businesses or projects that most need capital -- and they would hire fewer workers, many of them middle-class.

Bloomfeld, Mark. “Need Revenue? Try Slashing the Capital Gains Tax Rate.” The Wall Street Journal. N.p., 20 April 2017. Web. 5 Jan 2018. <https://www.wsj.com/articles/need-revenue-try-slashing-the-capital-gains-tax-rate-1492727992>.

The chance to test that theory came in May 2003, when Congress lowered the top rate on long-term capital gains to 15% from 20%. According to the Congressional Budget Office, by 2005-06 realizations of capital gains had more than doubled—up 151%— from the levels for 2002-03. Capital-gains tax receipts in 2005-06, at an average of $98 billion a year, were up 81% from 2002-03. Tax receipts reached a new peak of $127 billion in 2007 with the maximum rate still at 15%. By comparison, federal capital-gains tax receipts were a mere $7.9 billion in 1977 (the equivalent of about $31 billion in 2017 dollars), according to the Treasury Department. The effective maximum federal capital-gains tax was then 49%. The vociferous critics, who denounced us for trying to “unsoak the rich” over the years, should instead thank us for finding a way to make the wealthy pay much more in taxes. Now fast-forward to the recent past. Congress raised the top capital-gains tax rate back to 20% in 2009 and later added a 3.8% tax on investment income, including capital gains, to help pay for the Affordable Care Act. The top federal rate is now 23.8%. In 2009 through 2012, capital-gains realizations and tax receipts came in sharply under those of the previous four years, but one cannot blame all that on the higher tax rates. The recession and subsequent stock and real-estate market declines were no doubt big factors. Tax receipts have enjoyed a recovery during the past few years. Yet realizations of capital gains from 2013-16 remained considerably below prior peaks despite improvement in the economy. The subdued level of realizations is evidence of a considerable lock-in effect caused by higher rates.

**Cohen, New America Foundation senior fellow, 2012** (Michael, July 13, The Democracy Arsenal, “This Week In Threat Mongering—The Debt Version,” <http://tcf.org/blogs/botc/2012/07/this-week-in-threat-mongering-the-debtversion>, accessed 7/7/13, CBC)

The fact is, **if last year's debt limit debacle hasn't already convinced other nations to be skeptical of America's future then I think we're probably in the clear.** Of course, the debt limit debate is instructive in this regard. Even though both parties agreed to a mandated reduction of the defense budget, which would basically return the Pentagon budget to FY 2007 levels (or what some might call, non-crazy levels of spending), the ink was barely dry on the agreement before both parties began falling over themselves to restore the cuts. The House of Representatives even went so far as to take a sledgehammer, earlier this year, to key social safety net programs in order to prevent the Pentagon from taking a haircut. Secretary of Defense Panetta practically ran around Washington with his hair on fire decrying the impact of sequestration cuts. O'Hanlon and Lieberthal's **predictions of doom are fanciful at best and are based on the notion that the world is a dangerous place when in fact it's never been safer.** But even if they are right that their calamitous series of events could occur **there are about $690 billion reasons to believe that the sort of defense cuts that would lead to this series of events will never happen - especially when the country can rely on esteemed national security experts to convince Americans that if it were to occur the world would descend into a dystopian state.** But that isn't even the worst part of the debt is a national security threat argument - O'Hanlon and Lieberthal, as well as pretty everyone else who makes this assertion, don't appear to understand the difference between debt and economic growth. Yes, America's economy is weak; but it has very little to do with the fact that we have a lot of debt. Indeed, the problem is that **the federal government hasn't taken on enough debt in order to grow our economy, create jobs and pull ourselves out of the worst economic downturn since the Great Depression.** Quite simply, the government has failed at one of its most basic responsibilities in the face of economic calamity - spending money (even that which is borrowed) in order to fill the gap in aggregate demand. As Ezra Klein rightly points out, the world is desperate to loan us money so that we can spend it on important national priorities, rebuild out infrastructure and create jobs. Instead we have folks telling us that we should reducing out debt . . . and that it's a national security priority. **So while debt-mongers are right to be concerned about America's economic future, their diagnosis is way off-base**. Indeed **a greater focus on reducing the national debt will mean less resources to grow the economy, less money for infrastructure, less money for improving our education system and less money to support clean energy initiatives** . . . unless O'Hanlon, Lieberthal, Haass and Mullen believe that cutting government spending to reduce the deficit will somehow grow the economy. It won't. Instead it will make things worse.

### A2 Government Revenue

#### Abolishing the capital gains tax increases government revenue in 3 ways.

#### First is simplifying the tax code. David Marotta from Forbes writes in 2014 that there are numerous ways to evade the tax code, resulting in over half of capital gains never being taxed. This is problematic because Marotta furthers that this evasion uses capital inefficiently, hurting the economy and lowering government revenue. Jason Clemens furthers in 2014 that the complex rules of capital gains costs administrative costs for the government, and thus abolishing the tax would lower the cost to the government.

#### Second is reducing offshoring. Diana Roth writes in 2015 that capital gains rates cause businesses to move away from the US to avoid the tax. This not only takes away American middle class jobs, but it also moves the taxes away from America, overall reducing government revenue.

#### Third is by increasing investment. Jason Russell explains in 2015 that the capital gains tax reduces the amount people are willing to pay for investments, hurting the value of businesses. That’s why Michael Whalen finds that abolishing the tax would increase investment and create 1.3 million jobs per year, all which will increase government revenue.

#### All these factors cause Stephen Moore from the Heritage Foundation to conclude in 2015 that in years with lower capital gains tax rates, the US government got more revenue overall.

Marotta, David. "14 Ways to Avoid Paying Capital Gains." Forbes. 6/1/14. https://www.forbes.com/sites/davidmarotta/2014/06/01/fourteen-ways-to- avoid-paying-capital-gains/2/#4889427369fa

Because most savvy individuals can decide the timing and amount of capital gains they choose to realize each year, the capital gains tax is considered very elastic. The amount of capital gains realized depends heavily on the favorability of the capital gains tax rate. **As a result, over half of capital gains are never taxed. They are avoided completely.** But the effort of avoiding the tax causes capital to be allocated inefficiently in the meantime. The tax punishes entrepreneurship. Were the capital gains tax abolished entirely, some of the lost tax would be regained through economic expansion and more efficient and liquid capital markets. Conversely, since capital gains taxes have been raised, the slowing of economic growth could reduce tax revenue by more than the additional tax collected. The optimum capital gains tax rate is zero. If it was zero for everyone, all these shenanigans to avoid the tax could be ignored.

Clemens, Jason; Lamman, Charles; and Lo, Matthew. [Jason Clemens is the Fraser In- stitute’s Executive Vice-President. Charles Lammam is Associate Director of Tax and Fiscal Policy at the Fraser Institute. Matthew Lo was a 2014 research intern at the Fraser Institute. He is currently studying his Master’s Degree in Economics at the University of British Columbia.]. “The Economic Costs of Capital Gains Taxes in Canada,” In Charles Lammam and Jason Clemens (eds.), Capital Gains Tax Reform in Canada: Lessons from Abroad. Fraser Institute. October 2014, p. 5.

In addition to compliance costs for individuals, families, and businesses, there are also **costs borne by governments in administering capital gains taxes, and ultimately these costs are covered by taxpayers.** There is no empirical research on the administrative costs associated with capital gains taxes but **the rules and regulations related to the capital gains tax regime require tax collection agencies to dedicate resources to their enforcement.** These administrative costs ought to be considered when conceptualizing the total cost of taxation.

Diana Furchtgott-Roth [former chief economist of the U.S. Department of Labor], “Rais- ing Taxes on Capital Hurts the Middle Class,” E21, JANUARY 19, 2015. Available at: https://economics21.org/html/raising-taxes-capital-hurts-middle-class-1215.html

Raising capital gains taxes will never pass the Republican Congress. Mr. Obama knows this, and he is putting forward the proposal to make it appear that Republicans are protecting the rich while he stands up for the middle class. **In reality, the middle class would be harmed by higher capital gains tax rates, because capital would be more likely to go offshore.** With the proceeds, Mr. Obama wants to provide an additional tax credit to two-earner couples; to reduce student loan payments; and to end tuition payments for attendance at community college. Some of these are worthy goals. But higher cap- ital gains tax rates rarely result in more revenue, because capital gains realizations can be timed. When rates go up, people hold on to their assets rather than selling them, expecting that rates will go down at some point**. In addition, higher rate would have negative effects on the economy by reducing U.S. investment or driving it overseas. If firms pay more in capital gains taxes in America, they would make fewer investments – especially in the businesses or projects that most need capital – and they would hire fewer workers, many of them middle-class.**

Jason Russell [contributors editor, Washington Examiner], “Capital gains tax hike bad for the economy, middle class,” Washington Examiner, Jan 22 2015. Available at: http://www.washingtonexaminer.com/capital-gains-tax-hike-bad-for-the-economy- middle-class/article/2559095

Tax Foundation economists say Obama’s capital gains tax hike would decrease employ- ment by 134,579 jobs per year and cut the economy by 0.8 percent, or $142 billion, per year. Wages would fall by an estimated 0.7 percent. Despite the higher rate, tax rev- enue would actually fall by almost $12 billion when the negative economic effects are accounted for. One problem is that the middle class and the wealthy buy and trade the same public companies — and the wealthy buy and sell much more of the stock. **When the higher tax on them is priced in, they are not willing to pay as much, and stocks immediately lose value. Everyone who holds stock — including middle class families with tax-deferred retirement plans — takes a hit. This effect comes on top of the normal opportunity costs that all tax increases have — pulling more money out of the economy and reducing opportunities for investment and consumer spending.**

Whalen, Michael. [Job Creators Alliance member and the president and CEO of Heart of America Group]. “Eliminate the Capital Gains Tax,” US News. Sept. 28, 2012.

I**nvestment is the lifeblood of any economy.** It provides the money companies need to grow, expand, and hire people. So, encouraging investment should be a high priority. The more you tax something, the less of it you’ll get. So, if investment is something we want more of, it makes sense that we have low rates on investment income. In fact, there are those who would argue that **because they punish investment, taxes on capital gains are economically inefficient and that the best policy would be to do away with them altogether**. As an entrepreneur and job creator, I believe that we ought to have a free enterprise system that incentivizes investment. As we look toward this fall’s elections and the impact that the results could have on the overall policy debate and efforts for comprehensive tax reform, it’s imperative to focus our elected leaders on progrowth policies that will encourage economic growth. In the midst of a fragile recovery is not the time to be raising taxes on anyone—much less on the kind of economic activity that will power entrepreneurship: investment. A return to a 28 percent capital gains rate would result in the loss of more than 600,000 jobs annually. **By contrast, eliminating taxes on investments would create 1.3 million jobs per year**

Moore, Stephen. [Visiting fellow at The Heritage Foundation and previous member of the Wall Street Journal’s editorial board]. “Five Myths About Capital Gains Taxes,” Forbes. August 4, 2015.

2.Raising the capital gains tax will raise billions of dollars for the government. The Hillary plan is almost all pain with no gain. It’s highly unlikely the tax hike will raise any money for the Treasury and if history is a guide it will lose revenue. **After the capital gains tax hike in 1986 from 20 percent to 28 percent, capital gains revenues actually fell from $44 billion a year to $27 billion a year by 1991. After Bill Clinton cut the capital gains tax down to 20% again, capital gains revenues surged from $54 billion in 1996 to $99 billion in 1999. Lower rates, more revenues.**

### A2 Small Business

#### First: Turn because removing the CGT promotes small business Because Moore explains that most high-risk small business start-ups receive the bulk of their seed money from informal investors who are subject to the capital gains tax. Over the past 25 years, higher capital gains taxes have been associated with a drying up of investment capital for small and growing businesses, and lower capital gains taxes have produced substantial increases in business start-ups and financings

#### Second: Gingrich 09 states that businesses would have more of an incentive to invest capital in all areas of their business, including labor, capital, and research and development.

Stephen Moore, director of fiscal policy studies at the Cato Institute, and John Silvia is chief economist at Kemper Financial Services, October 4, 1995 "CATO Institute Policy Analysis No. 242: The ABCs of the Capital Gains Tax," CATO Institute Policy analysis https://object.cato.org/sites/cato.org/files/pubs/pdf/pa242.pdf (accessed 1/4/18) To summarize, a capital gains tax cut is critical to American entrepreneurs and small business owners because 1. most high-risk small business start-ups receive the bulk of their seed money from informal investors who are subject to the capital gains tax; 2. over the past 25 years higher capital gains taxes have been associated with a drying up of investment capital for small and growing businesses, and lower capital gains taxes have produced substantial increases in business start-ups and financings; and 3. a capital gains tax cut will particularly benefit America's new high-technology companies, which have a voracious appetite for investment capital in their start-up stages; those firms tend to be financed by a combination of informal investors and venture capital--both of which are highly influenced by the capital gains tax rate.

Newt Gingrich, former Speaker of the House, and Emily Renwick, writer for The American, August 13, 2009 “Capital Gains Tax: An Argument for Repeal,” The American http://www.aei.org/publication/capital-gainstax-an-argument-for-repeal/ (accessed 1/4/18) First and foremost, businesses would have more of an incentive to invest capital in all areas of their business, including labor, capital, and research and development. Moreover, businesses would be able to finance their debt at a lower cost if capital gains were not taxed. In today’s market, businesses seek out new stocks or bonds to finance their investments. Those assets will be more desirable if investors do not have to pay the capital gains tax on the revenue gained from the investment. As these corporate assets become more appealing, this will drive down the cost of capital for companies, facilitating investment by companies so that they can grow and hire more employees.

### A2 Distressed Zones

#### Tankersley finds on January 29th that Research suggests many previous federal attempts to increase investment in particular regions, such as Clinton-era Enterprise Zones, were largely ineffective. There’s no reason this will be any different.

#### This is argument only exacerbates their problems in a couple ways.

#### First, Eligon from the New York Times finds in 2017 that this program, while seemingly good, is actually aimed at keeping racial minorities in these poor communities to maintain entrenched racial divides. This policy increases the segregation, increasing inequality and racism.

#### Second, Hao finds that innovative companies tend to cluster together, and because of this highly paid individuals working at these companies choose to live together. As a result, the low-income people are pushed out. Hao includes that an increase in innovative activities increases income segregation by 20%.

#### Third, Jeff Michen 17 of AMIBA finds that shifting local purchases to independent businesses is key to generating local jobs. Dollars spent at community-based merchants create a multiplier in the local economy, meaning that from each dollar spent at a local independent merchant, 2 to 3.5 recirculates in the local economy which generates more jobs. Small businesses are key to this contention.

#### Fourth, Kemp finds that trillions of dollars of investment are being sat on in the status quo. Abolishing the capital gains tax overall increases investment, some of which will undoubtedly go towards these communities.

John Eligon, Yamiche Alcindor and Agustin Armendariz, 7-2-2017, "Program to Spur Low-Income Housing Is Keeping Cities Segregated," New York Times, https://www.nytimes.com/2017/07/02/us/federal-housing-assistance-urban-racial-divides.html, //RP **What this means, fair-housing advocates say, is that the government is essentially helping to maintain entrenched racial divides**, even though federal law requires government agencies to promote integration**. The nearly $8-billion-a-year tax credit program allows private developers to apply for credits they can use to help finance new housing or the rehabilitation of existing units.** The program offers developers larger credits for building in poorer communities, which tend to need affordable housing the most but also have large minority populations. That has meant that even in a place like Houston, one of the country’s most diverse cities, racial divides can run deep.

Jim Tankersley, 1-29-2018, "Tucked Into the Tax Bill, a Plan to Help Distressed America," New York Times, https://www.nytimes.com/2018/01/29/business/tax-bill-economic-recovery-opportunity-zones.html, //RP Turning distressed communities into attractive investments, however, is not a guarantee. One critique of the plan is that it might not leverage much investment in areas that really need it — be they Stockton, or Youngstown, or any other distressed community. **Research suggests many previous federal attempts to increase investment in particular regions, such as Clinton-era Enterprise Zones, were largely ineffective.** A more successful effort was the New Markets Tax Credit, a program that still exists and similarly gives incentives to invest in distressed areas but that is relatively limited in scope.

Karen Hao, 11-7-2017, "As cities become more innovative, they also become more unequal," Quartz, https://qz.com/1120131/as-cities-become-more-innovative-they-also-become-more-unequal/, //RP The researchers used the number of patents published within a city as a proxy for its innovativeness; they used the Gini coefficient, a standard measure for income distribution, to quantify inequality. By analyzing patent volume against local changes in income distribution, education level, and employment over the two decades, they were able to identify what they call the “sorting effect” as the primary reason why innovation leads to income segregation. How does the sorting effect work**? Because the knowledge economy is driven by the exchange of ideas, innovative companies tend to cluster together. Subsequently, to reduce commuting costs, highly educated, highly paid individuals working at those companies choose to live nearby.** That causes low-income and high-income workers to separate into completely different regions of the city. A high concentration of high-income workers also leads to a demand for more expensive amenities, such as Whole Foods, yoga studios, and coffee shops. The gentrification amplifies property value increases and further pushes low-income individuals out. **The researchers concluded that, on average, 20% of the rise in income segregation in US cities can be explained by the rise of innovative activities.** They also found that some cities demonstrated the causal relationship more than others. In San Francisco, for example, the tech industry accounted for nearly half of the city’s Gini coefficient increase from 1990 to 2010. In San Jose, it accounted for 58%. In New York, by contrast, it only accounted for 6%. (The study controlled for confounding variables, like changes in the economy and housing shocks.)

Jeff Michen 2017 (AIMBA, “The Benefits of Buying and Shopping Locally”,<https://www.amiba.net/benefits-local-business/> )

**A chain “superstore” may boast of creating 300 new jobs, but numerous studies indicate they displace as many jobs as they create. Independent local businesses employ an array of supporting services by “buying locally” themselves. They hire local contractors, merchants, and distributors to run their business. Dollars spent at community-based merchants create a multiplier in the local economy, meaning that from each dollar spent at a local independent merchant, 2 to 3.5 recirculates in the local economy. This “local multiplier effect” means shifting more local purchasing to independent businesses is a key tool for creating more local jobs.**

Kemp, Jack. “Greenspan Is Right: Abolish Capital Gains Taxes.” The Wall Street Journal, Dow Jones & Company, 24 Feb. 1997, www.wsj.com/articles/SB856727723792338500.

As a rock-bottom minimum, Congress should cut the capital gains tax rate in half--to 14% for those in the highest tax brackets--and to zero for urban enterprise zones such as the District of Columbia. At least as important, all future capital gains should be indexed for inflation, and for two years capital gains that already have been accrued should be indexed back to the date of the asset's acquisition. As Ted Forstmann pointed out on this page last year, these reforms would create a flood of investment, unlocking an estimated $5 trillion in capital gains (about three-fourths of which are purely inflationary gains). Owners of these assets currently are sitting on them because they refuse to sell the assets and face the exorbitant and confiscatory inflation tax, which amounts to about $1 trillion--an average tax rate of about 80% on the inflation-adjusted gains. Most Democrats and Republicans agree that taxing inflated gains is unfair, but neither party seems to appreciate the extent to which it is also self-defeating. Both parties are trapped by their delusion that the trillion-dollar, inflation-swollen bonanza of accrued capital gains taxes eventually will materialize as revenue. It won't. People simply refuse to pay the high toll to go through the tax gate, so they sit on assets that they would rather reinvest. If, however, Congress would cut the capital gains tax rate in half and index gains for inflation retrospectively for two years, people would unlock their real gains and pay taxes on them. The result would be an estimated $150 billion increase in federal revenues, which could pay for other desirable tax cuts, such as repeal of the entirely arbitrarytax on inheritances.

### A2 Decreased FDI

#### 1. Latha Venkatesh finds on January 10 finds that foreign investors look at the potential for growth, not taxes. The capital gains tax has no effect on American primacy and hegemony.

#### 2. Eric Edelman finds in 2010 that the American decline in the world order is not decided by economic gains or loses. The economy has no impact on American primacy worldwide. That’s why Robert Kagan from the Brookings Institute finds in 2012 that the size of an economy has no empirical correlation with that countries primacy.

Venkatesh, Latha. “Budget 2018: Ten reasons to tax capital gains on shares,” MoneyControl. January 10, 2018.The more important deduction from the table is that for the past 25 years China hasattracted record foreign flows and now, domestic flows, despite a 25% capital gains tax.So have most European countries. Clearly global investors hunt for growth and are notswayed by tax incentives alone. So if India is one of the fastest growing economies, atax on capital gains ought not to deter genuine long only investors.

**Edelman, former Under Secretary of Defense for Policy, 2010**

(Eric, Center for Strategic and Budgetary Assessments, “Understanding America’s Contested Primacy, http://belfercenter.hks.harvard.edu/files/CSBA\_UACP\_web.pdf, accessed 7/8/13, CBC)

**American decline and the longevity of a unipolar world order will not be determined** purely by **economic gains or losses.** **The future shape of the international system will depend on broader measures of national power than the percentage of global production that a given state controls**. Measuring national power, however, is notoriously difficult. **In an unprecedented situation of unipolarity**, with little historical precedent to guide analysts, **the measurement of relative power shifts is perhaps harder still.**

**Kagan, Brookings Institute senior fellow, 2-14-12**

(Robert, Daniel W. Drezner, professor of international politics at Tufts University's Fletcher School, Gideon Rachman is chief foreign-affairs commentator for the Financial Times, Foreign Policy, "The Rise or Fall of the American Empire," http://www.foreignpolicy.com/articles/2012/02/14/the\_rise\_or\_fall\_of\_the\_american\_empire?page=full, accessed 7-5-12, CNM)

As a matter of geopolitics and power, **the size of a country's economy by itself is not a great measure. If it were, then China would have been the world's strongest power in 1800, when it had the largest share of global GDP**. So **the next question is whether China can translate its economic power into geopolitical influence**. Again, it will undoubtedly do so to some extent. But power and influence do not stem from economic strength alone, and China is already the best proof of this. **Over the past couple of years, as the U.S. economy has been slumping and China's has been booming, the United States has significantly improved its standing in East Asia and Southeast Asia, while China's position has deteriorated**. In fact, **the more China uses its newfound muscle, the more it sparks a reaction in the region, which then looks to the United States for succor**. (This was the key insight of William Wohlforth years ago in his brilliant essay, "The Stability of a Unipolar World.") Gideon keeps predicting that Japan is about to tilt toward China, but all signs point in the opposite direction -- and not only for Japan but also for most of China's other neighbors. **The fact that China is the top trading partner of all these countries does not necessarily increase China's clout. I gather that even Brazilians are increasingly unhappy at becoming merely a raw materials provider to the Chinese. No economy in the world is more dependent on China than Australia's, but look at the new U.S. base the Australians just welcomed onto their soil. Trade does not necessarily breed comity or strategic dependence**. As many have pointed out, in 1914 Germany and Britain were each other's largest trading partners too.

### A2 Tax Revenue Tradeoff

#### The internal link to this argument is that there is going to be a reduced amount of revenue after eliminating the capital gains tax, this is wrong.

#### Turn, according to the OECD ‘97, an extra dollar raised by the capital gains tax costs $1.55 in output. Concluding that the elimination of the capital gains tax would cause national income to increase—and lead to overall higher tax revenues as people with higher incomes will pay more in taxes. Grubel ’01 of the Fraser Institute empirically confirms that when Switzerland eliminated the capital gains tax they experienced a 2.2% increase in national income in the short term and a 3.1% increase in the long term.

#### Turn, Gustafson 13 of Vanderbilt University explains that the capital gains tax causes a lack of hiring, minimal economic expansion thus, reducing GDP growth. He explains that the reason Capital gains don’t collect a lot of revenue is because they limit economic activity and the potential capital gains they can collect.

#### Turn, affirming increases tax revenue by decreasing tax evasion and boosting other revenue streams. Empirically, Jones 17’ of the University of Rotterdam explains that for every one percent decrease in the Capital Gains tax rate, there is over a 10% increase in realized capital gains. 2 implications

#### a.) This means more revenue will flow through other taxes like income and corporate taxes and

#### b.) The economy as a whole will be stronger, allowing for greater economic mobility

Cards:

Andy Gustafson (Gustafson graduated from Vanderbilt University with a Bachelor of Arts in Economics. For 13 years prior to entering the 1031 exchange industry, he worked in the Enterprise Resource Planning (ERP) manufacturing software market helping companies in North, Central and South America improve production efficiencies. Mr. Gustafson qualified and received the professional designation of Certified Exchange Specialist® (CES®) created by the Federation of Exchange Accommodators to set a standard of 1031 accommodator ethics and excellence), Atlas 1031 Exchange Financial Serviices, 4-11-2013, ["Capital Gains Tax Rate Economic Impact," http://www.atlas1031.com/blog/1031-exchange/bid/83533/Capital-Gains-Tax-Rate-Economic-Impact, DOA: 1-16-2018] // ATA

In 2013, the capital gains tax rate increased for those in the upper income brackets. Internal Revenue Code Section 1031 and Treasury Regulations provides a welcome relief for those taxpayers who replace their assets by potentially indefinitely deferring the federal and state capital gain by engaging a Qualified Intermediary to accommodate a 1031 exchange. With the American Taxpayer Relief Act, the capital gain tax rate was increased to about 20% for both individual and married couple taxpayers. The capital gains tax rate goes up even higher when you look at the Medicare surtax on net investment income. Wealthy taxpayers could see their capital gains tax rate rise over more than half their previous rates. Investors owe capital gain taxes on their economic gain according to their income while businesses are also assessed capital gain taxes. Investment or personal property used in a business like aircraft, kidney dialysis machines, oil and gas, heavy road construction equipment sold triggers a 25% tax known as recapture depreciation. Taxpayers should also look at the applicable state, county and municipal capital gain taxes in addition to the federal capital gain taxes. Potential Economic Impact Many people share the opinion that long term capital gain taxes are detrimental to economic growth. Capital gains are taxed when the asset is sold. When capital income is taxed, the reward for investing in equipment or for appreciation is diminished providing a disincentive to invest in capital assets. The outcome of higher capital gains tax rates is potentially less investment, fewer jobs, lower wages and a deflationary economy. With the capital gains tax rate going up, there are those taxpayers and businesses who will delay replacing equipment to maximize utilization and possibly not replace given with higher taxes, there is less capital to reinvest. Why invest to pay a higher tax rather, hold as Treasury bills or Certificate of Deposits avoiding the higher capital gains tax rate. To the contrary, there are advocates who suggest that there isn't a lot of capital gains tax collected, so there isn't a lot of damage done; however, the majority of analysts believe that a higher capital gains tax causes a lack of hiring, minimal economic expansion reducing gross domestic product growth. When the capital gains tax rate is lower, the return on capital is higher, providing an incentive for investment activity. The consensus is that a high capital gains tax rate hurts the poor and society in general because it limits economic expansion. Capital gains taxes are a controversial topic especially for the taxpayers and businesses dependent upon capital assets as a revenue generator. 1031 Tax Deferred Exchange An effective strategy to minimize higher capital gains is to replace the asset in a 1031 exchange. The outcome is that now the taxpayer has an asset with a longer useful life, depreciation that offsets income and interest free operating capital that would otherwise be paid out in taxes. The tax deferred dollars are fully utilized by being invested in assets that are aligned with business strategies to maximize investment return. 1031 Exchange Examples An example is a road construction company that sells their Roadtec milling machine and replaces with a newer more efficient model. Another example is an Original Equipment Manufacturer of agricultural equipment that owns a business aircraft for reasons to reduce travel expenses and flexibility. By exchanging for a more efficient, bank owned aircraft, their cost of business is reduced. Capital gain tax rates impacts every part of our US economy from our competitiveness in the world market to research and development.

Next, in a report by the Adam Smith Institute (2010) some international evidence is presented on the negative relationship between the capital gains tax rate and tax revenue. The Irish government halved the rate in 1997 from 40 percent to 20 percent. As a result, the net receipts in taxes from capital gains nearly tripled in the years after the reform. Some researchers in Sweden analyzed the period of 1993-1995 and found that an increase in 10 percent of capital gains tax rate induced a reduction in the number of capital gains realisations of 8.7 percent. Evans (2009) deducts from the US states that at a tax rate of 15 percent, a one percent reduction of the rate may trigger a 10.3 percent increase in realised capital gains. Furthermore, in terms of maximizing government revenue, he concludes that the optimal tax rate on capital gains would be just below 10 percent. He applies a cross-section analysis to annual data from 1976 through 2004. It should be noted that his method is not very adequate at controlling for the possibility that the change in capital gains tax rates causes shifts in the timing rather than the level of realised capital gains.

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Optimal tax theory and capital taxes The economic theory of optimal taxation was developed during the last 25 years and the Oxford economist James Mirrlees received a Nobel Prize for his contributions to this body of knowledge. This theory argues that the economic cost of taxation is higher the more easily the tax can be avoided by those required to pay it. By these standards, the capital gains tax is the worst tax of all. Taxpayers can avoid paying it simply by not realizing their capital gains. They can reduce their level of savings and invest in assets with low probabilities of generating capital gains. Foreigners, especially Americans, keep their assets at home or come to Canada only if the pre-tax returns make up for the taxes they have to pay. All of these tax-induced changes reduce the rate at which gains in labour productivity—and, therefore, living standards—is increased. Capital that is “locked in” earns lower economic returns. Less investment by Canadians and foreigners reduces labour productivity directly and slows the introduction of new technology embodied in capital. Less investment is made in high-risk projects and the engine of innovation and growth is starved. The Canadian Department of Finance has published estimates of the losses in output resulting from an extra dollar of tax. Unfortunately, the estimates do not include the capital gains tax but the *corporate income tax may stand as a proxy for the capital gains tax since both fall on the capital and create very similar incentives and opportunities to avoid them*. The estimates, published by the OECD (1997), suggest that an extra dollar raised by the corporate income tax costs $1.55 in output. The analogous figures are $.56 for the personal income tax, $.27 for the payroll tax and only $.17 for the sales tax. These data suggest strongly that the elimination of the capital gains tax and a simultaneous increase in other taxes to maintain total revenue would cause national income to increase—and lead to overall higher tax revenues as people with higher incomes paid more taxes.

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Evidence from Switzerland by Kugler and Lenz It is important, therefore, that the chapter by Peter Kugler and Carlos Lenz (p. 55) presents unique, powerful empirical evidence on the effect the elimination of the capital gains tax has had on income in Switzerland. According to the authors, the federal government of Switzerland does not impose a capital gains tax. However, most cantons in that country have had such taxes for some time but, in recent years, some of these cantons have eliminated the capital gains tax and others retained it. These conditions supply us with a rare opportunity in the social sciences, the equivalent of a controlled experiment. One sample of countries changes one policy while the control group of countries does not, all while other policies and external conditions affecting economic conditions in the country as a whole remain unchanged. Kugler and Lenz calculated the trend in the economic growth rates of all cantons before and after the elimination of the capital gains tax. They then calculated average growth rates for two groups of cantons, one in which capital gains taxes remained unchanged and one in which they were eliminated. They found that the cantons that eliminated the capital gains tax enjoyed an average short-run 2.2% jump in the level of national income relative to the other group of cantons. In the longer run, the jump in income is 3.1%. It is possible that the cantons increased their incomes simply as a result of drawing capital and labour from cantons that had retained the capital gains tax. If this is true, the higher output in the gaining countries is matched by lower output in the losing countries and overall Switzerland is no better off. Moreover, if the argument is true, the process involves the inefficient relocation of the resources and, therefore, an actual reduction in output of all cantons. The authors examined their data for evidence on such shifting of capital and labour and found none. What about the effect of the removal of the capital gains tax on economic growth rates rather than levels? The authors note that the time series available to them is too short to estimate such an effect. In spite of the limitations of the study of the Swiss experience, the results are consistent with so-called “supply-side economics” and its hallmark “Laffer curve.” According to this theory, it is not surprising that the recent tax cuts of Ireland, the United States and the continued low taxes in Hong Kong and Singapore resulted in more rapid economic growth than that experienced in countries with higher levels of taxation. The incentives to working, investment, risk-taking and innovation activated by lower taxes are almost certain to bring higher economic growth. I believe that the available evidence makes a good case for the elimination of the capital gains tax in Canada. However, many economists and politicians argue against this policy because it is seen to have socially adverse effects on the distribution of income and it results in tax avoidance maneuvers as taxpayers attempt to shift taxable income into non-taxable capital gains.

### A2 State Tax Revenue

#### Jason Mercier of the Washington Policy Center 17 explains that all state revenue departments describe capital gains as income. Those that tax capital gains do so via their income tax codes. No state taxes capital gains as an excise tax. Capital gains are included in federal taxable income, against which income tax is determined.

**Jason Mercier**, Washington policy center , 4-10-2017, ["," https://www.washingtonpolicy.org/library/docLib/statedorscapitalgainsincome.pdf, DOA: 1-17-2018] // ATA

**All state revenue departments describe capital gains as income. Those that tax capital gains do so via their income tax codes. No state taxes capital gains as an excise tax**. States without income taxes described their treatment of capital gains income like Florida did: "There is currently no Florida income tax for individuals and, therefore, no Florida capital gains tax for individuals." The best response differentiating between what an excise tax is versus income tax was Illinois: "**Capital gains are included in federal taxable income, against which** Illinois **income tax is determined**. Illinois does not impose an excise tax on any form of income. Excise taxes are imposed on items of consumption, such as the liquor tax, cigarette tax and utilities taxes.

### A2 Less Volatility

#### Turn: Abolishing the capital gains tax is the only way to solve for volatility as Douglas Shackelford 4 writes that capital gains taxes producing price pressure around heavy trading days. This pressure leads to increased volatility and drifts from fundamentals. He furthers that because of preferential treatment for long term capital gains, volatility increases.

**Douglas A. Shackelford**, NBER Reporter: Research Summary, 2004, ["," http://www.nber.org/reporter/fall04/shackelford.html, DOA: 1-17-2018] // ATA

These studies reviewed preliminary evidence consistent with capital gains taxes affecting share prices. At a minimum, they provide examples of instances where share prices impound potential capital gains taxes, a possibility that largely has been ignored in the past. Together, they reject the proposition that the array of necessary conditions for share prices reactions never holds**. 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.

**Douglas A. Shackelford**, NBER Reporter: Research Summary, 2004, ["," http://www.nber.org/reporter/fall04/shackelford.html, DOA: 1-17-2018] // ATA

To provide a more general test, we investigate equity trading from 1978 to 1999 around two different disclosures: quarterly earnings announcements and changes to the Standard & Poor's 500 index. **Both public disclosures are known to trigger substantial portfolio rebalancing and thus potentially provide a sufficiently powerful setting to detect the impact of capital gains taxes on trading**. For each disclosure, we regress both abnormal returns and abnormal trading volume on the estimated incremental taxes that would be triggered if the appreciated property were sold immediately before it qualified for long-term treatment. Incremental taxes are measured as the product of the spread between long-term and short-term capital gains tax rates (which ranged from zero to 50 percent during the years examined) and the change in the firm's price during the requisite holding period (which ranged from six to 18 months). In other words, if an individual is at the long-term/short-term cusp when a disclosure occurs, then the tax measure captures his taxes saved by deferring the sale of appreciated property for precisely one day. 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 **We find that the tax variable is a determinant of equity trading for appreciated stocks around both earnings announcements** 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**.

### A2 Econ Growth

#### Turn, affirming promotes economic growth. The Tax Foundation ‘14 finds that the capital gains tax is “more damaging than other taxes because of the bias it creates towards consumption over savings and investment.” The reason for this, they further, is that any capital gain due to inflation is not accounted for, and the taxpayer is taxed on both their increase in income and on increases in prices economy-wide. As a result, the effective tax rate on the real capital gain has exceeded the statutory rate every year since 1950. This leads them to conclude that that abolishing tax is the best course of action to “stop the damaging practice of taxing individuals on inflation” and which would “produce positive long-term dynamic effects for the economy.”

#### Turn, Shift ‘14 explains that the capital gains tax places a double tax on corporate profits, preventing corporation from reinvesting in o their businesses which results in less jobs and economic growth.

#### Turn, Dr. Sinai ‘97 of the Joint Economic Committee explains that merely reducing the capital gains tax would boost investment and stimulate economic growth. He quantifies that affirming means at minimum, increasing GDP by 51 billion annually, creating 500,000 new jobs, and increasing business expenditures by 18 billion dollars annually.

#### Turn, Grubel ’01 of the Frasier Institute explains that if the capital gains tax were eliminated, we would see increased economic growth over the long term because you’d be removing a major impediment to entrepreneurial activity and capital formation. In fact, he quantifies in his 7-year cross-sectional analysis on OECD countries, that those without a capital gains tax experienced GDP growth 1.83 times higher than those with a capital gains tax.

#### Turn, negating increases the occurrence of monopolization. Voget ‘12 of Oxford University concludes that a one percentage point increase in the capital gains tax, reduces the takeover price by 0.225% and the price of an international stock transactions by 5%. This means that affirming increases the occurance of monopoly formation which destabilizes the economy through predatory business practices.

#### Turn, Dr. Sinai ‘97 of the Joint Economic Committee explains that merely reducing the capital gains tax would boost investment and stimulate economic growth. He quantifies that affirming means at minimum, increasing GDP by 51 billion annually, creating 500,000 new jobs, and increasing business expenditures by 18 billion dollars annually.

Cards:

Shift Washington, 12-2-2014, ["Capital gains tax billed as answer to WA’s budget woes," https://shiftwa.org/capital-gains-tax-billed-as-answer-to-was-budget-woes/, DOA: 1-16-2018] // ATA

The Seattle Time’s Danny Westneat recently wrote a column in which he pointed to California’s budget surplus for the second year running. He states that California is no longer America’s Greece. Rather, Washington State appears on the verge of earning that unflattering distinction. Westneat writes, “Washington state is the one heading into 2015 with big budget deficits — as much as $5 billion, or 13 percent of the two-year budget, depending on if state lawmakers choose to follow both voter and court orders to spend more on schools.” What is the secret to California’s budget redemption? According to Westneat, California’s capital gains tax went along way to solving deficit problems. Alternatively, the tax does not exist in Washington State. Westneat, “Some of California’s black ink has flowed from a tax we don’t have, and no, it’s not the income tax. Like 41 other states, California taxes capital gains — profit from the sale of stocks and investments. It’s volatile, so Brown joined it with a conservative policy that saves excess amounts from boom years in a rainy-day fund. The Puget Sound area is so frothy with investment profits that a 5 percent tax on capital gains, with exemptions for the first $10,000 and the sale of primary homes, would raise $1.3 billion per biennium, the state estimates. Only 2 percent of the state’s 3.1 million taxpayers would pay it.” But, has the capital gains tax really been the answer to all of California’s budget woes? After all, California is currently on a path toward hiking college tuition at a rate of 5% annually over the next five years. Or, is the notoriously volatile tax just a short-term fix which, ironically, creates long-term problems? Many top economists believe it to be the latter. Forbes, “California’s top marginal tax rate of 33% is the third-highest tax rate in the industrialized world, behind only Denmark and France. That creates a bias against savings, slows economic growth, and harms U.S. competitiveness… The lack of an adjustment for inflation makes it doubly painful. Your effective capital gains rate could be even higher. After all, much of the increase in the value of the asset might be due to inflation, not to real gains… California taxes capital gains just like income, as high as 13.3%. You pay up to a 33% combined federal and state tax on capital gains in California. That means you’re paying more than virtually anyone else in the world. Experts say the impact isn’t just digging deeper at tax time… In fact, such a high tax rate has long-term negative implications for the economy. People save less and invest less.” A study conducted by the Tax Foundation found that our nation’s high capital gains tax—let alone an additional state capital gains tax—is “problematic, because the capital gains tax creates a bias against savings, slows economic growth, and places a double-tax on corporate profits.” Additionally, the Tax Foundation points out that “although these problems with the capital gains tax are well known, there is a more subtle issue with the tax that makes it even worse for taxpayers than these conventional concerns suggest.” The Tax Foundation, “Under the federal tax code, the increase in an asset’s price is determined as the nominal amount (i.e., not adjusted for inflation). When an asset (often a stock) is sold above its purchase price, a gain is realized and is taxed. Any capital gain due to inflation is not accounted for, and the taxpayer is taxed on both their increase in income and on increases in prices economy-wide. As a result, the effective tax rate on the real (inflation indexed) capital gain has exceeded the statutory rate every year since 1950 and has averaged around 42 percent. “In some instances, the practice of taxing the nominal gain can lead to an infinite effective rate on real capital gains when the increase in price is only due to inflation. In fact, if a taxpayer purchased an average stock in 1999, 2000, or 2007 and sold in 2013, they would be taxed entirely on inflation.” Ultimately, the Tax Foundation found the capital gains tax to be “more damaging than other taxes because of the bias it creates towards consumption over savings and investment.” It concludes that repealing the capital gains tax is the best course of action in order to “stop the damaging practice of taxing individuals on inflation” and “produce positive long-term dynamic effects for the economy.”

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Between June 1981 and December 1986, the federal government allowed taxpayers to exclude 60 percent of capital gains from taxation. However, the Tax Reform Act of 1986 eliminated this exclusion, raising the maximum capital gains tax rate from 20 to 28 percent, a 40 percent increase. The increase was largest for middle income taxpayers, whose tax rate increased from 8.7 to 15 percent, a 72 percent increase. A capital gains tax reduction would help promote economic growth, benefit tax payers across the income spectrum, and mitigate the unfair effects of taxing inflation-generated gains. Macroeconomic Effects. Economist Allen Sinai maintains that a capital gains tax reduction would lower the cost of capital, boost investment, and stimulate economic growth. He estimates that a capital gains tax reduction could: ⇒ increase real gross domestic product (GDP) by an average of $51 billion annually; ⇒ create 500,000 new jobs by the year 2000; and ⇒ increase real business spending by an average of nearly $18 billion annually. The effects of increased investment and economic growth would reverberate throughout the entire economy in the form of higher wages and rising living standards. In addition, the United States taxes capital gains more harshly than its major international competitors. Reducing the capital gains tax rate could increase U.S. global competitiveness. Tax Revenue. The historical evidence suggest that capital gains tax reductions tend to increase tax revenue. When capital gains tax rates were lowered in 1978 and again in 1981, revenue climbed steadily. Conversely, when the tax rate was increased in 1987, revenue began declining despite forecasters predictions it would increase. For instance, capital gains tax revenue in 1985 equaled $36.4billion after adjusting for inflation, yet $36.2 billion was collected in 1994 under a higher tax rate. In other words, tax revenue in 1994 was slightly less than it was in 1985 even though the economy was larger, the tax rate was higher, and the stock market was stronger in 1994.Who Would Benefit? A recent NASDAQ Stock Market survey suggests that the notion that all investors are affluent gentlemen coupon-clippers is no longer true. The survey found that: ⇒ stock ownership doubled over the past seven years to 43 percent of the adult population; ⇒ 47 percent of all investors are women; ⇒ 55 percent are under the age of 50; and⇒ 50 percent are not college graduates. The survey results suggest that a capital gains tax reduction would directly benefit many Americans across the income spectrum. More importantly, a tax cut would benefit all Americans by promoting economic growth, thus boosting workers’ wages and living standards. Tax Fairness. The treatment of capital gains is generally unfair and strongly discourages saving and investment -- two activities crucial to economic growth. ⇒ Taxpayers must pay capital gains on illusory, inflation-generated gains. In years of high inflation, this means people may pay capital gains taxes on capital losses. ⇒ The effective capital gains tax rate often exceeds the statutory maximum due to various phase-out provisions in the tax code. ⇒ Saving is subject to three, and sometimes four, levels of taxation. Reducing the capital gains tax rate would mitigate the problem of taxing inflationary gains and would help reduce the bias against saving and investment which prevails under the current tax code.

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How big is the effect on output? It is very difficult, however, to make reliable, reproducible, quantitative estimates of the direct effects of capital gains taxation on productivity and living standards. In Canada and other economies there are too many other influences operating on productivity and output. These confounding influences are a function, for example, of the level and structure of the personal and corporate income taxes, the effects of terms of trade, environmental legislation and other regulations, labour market flexibility, inflation, interest rates, and shocks like the energy crisis. There are not enough observations and too few changes in the rate of taxation, and the interrelationships are too complex to permit separating out the effects of high capital gains taxes on economic growth in Canada. However, there are two ways, less rigorous but still useful, to shed light on the empirical effects of capital gains taxes on economic performance. The first involves the judgement of persons who have access to input from a wide range of practitioners. The following quotations are from two distinguished persons in this position. The tax on capital gains directly affects investment decisions, the mobility and flow of risk capital . . . the ease or difficulty experienced by new ventures in obtaining capital, and therefore the strength and potential for growth in the economy. President John F. Kennedy, Special Message to the Congress on Tax Reduction and Reform, January 24, 1963 (quoted in Joint Economic Committee 1999) The point I made at the Budget Committee was that if the capital gains tax were eliminated, that we would presumably, over time, see increased economic growth . . . Indeed, its major impact is to impede entrepreneurial activity and capital formation. While all taxes impede economic growth to one extent or another, the capital gains tax is at the far end of the scale. I argued that the appropriate capital gains tax rate was zero. Federal Reserve Chairman Alan Greenspan in testimony before the Senate Banking Committee on February 25, 1997 (quoted in Joint Economic Committee 1999) The second method for obtaining information about the effect of capital gains taxation on economic growth is to consider the experience of countries with different capital gains tax regimes. Simple and imperfect as the evidence might be, it is interesting to note that according to my own calculations (Grubel 2000: 39), five countries without capital gains taxes (Hong Kong, the Netherlands, New Zealand, Singapore and Switzerland) during the years 1990 to 1997 had average annual rates of growth in real per-capita income equal to 2.2%. The remaining member countries of the OECD grew at only 1.2% annually during the same period.

Harry Huizinga (Tilburg University and CEPR), Johannes Voget (University of Mannheim, Oxford University Centre for Business Taxation), Wolf Wagner (Tilburg University, Duisenberg School of Finance), Oxford University Centre for Business Taxation Said Business School, August 2012, ["Capital Gains Taxation and the Cost of Capital: Evidence from Unanticipated Cross-Border Transfers of Tax Bases," https://www.sbs.ox.ac.uk/sites/default/files/Business\_Taxation/Docs/WP1226.pdf, DOA: 1-16-2018] // ATA

7. Conclusion In a cross-border takeover, buyers and sellers are residents of different countries and hence subject to different regimes of capital gains taxation. This implies that international M&As provide an ideal setting to study the impact of capital gains taxation, which generally applies at both sides of the transaction. International takeovers provide a particularly interesting opportunity to estimate a capitalization effect associated with future capital gains taxation, as they induce an unanticipated transfer of the taxation of future capital gains from shareholders of the target country to shareholders of the acquirer country. We find that a one percentage point increase in the acquirer-country capital gains tax rate reduces the takeover price by 0.225%. The average capital gains tax rate imposed by acquirer countries in cross-border transactions is 22.4%. Capital gains taxation on the side of the acquirer thus reduces the price of target equity in cross-border deals by about 5%, which is economically meaningful. Firms that issue new equity in the capital market can expect a similar discounting of shareholder capital gains. Our discount estimate implies that the effective capital gains tax, after taking account of deductions, exemptions, and deferral options, is about 31% of the statutory capital gains tax. For an average statutory capital gains tax rate of 22.4%, the average effective capital gains tax rate is thus about 7%. This implies that capital gains taxation significantly raises the cost of equity capital, potentially reducing investment in the economy.

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Between June 1981 and December 1986, the federal government allowed taxpayers to exclude 60 percent of capital gains from taxation. However, the Tax Reform Act of 1986 eliminated this exclusion, raising the maximum capital gains tax rate from 20 to 28 percent, a 40 percent increase. The increase was largest for middle income taxpayers, whose tax rate increased from 8.7 to 15 percent, a 72 percent increase. A capital gains tax reduction would help promote economic growth, benefit tax payers across the income spectrum, and mitigate the unfair effects of taxing inflation-generated gains. Macroeconomic Effects. Economist Allen Sinai maintains that a capital gains tax reduction would lower the cost of capital, boost investment, and stimulate economic growth. He estimates that a capital gains tax reduction could: ⇒ increase real gross domestic product (GDP) by an average of $51 billion annually; ⇒ create 500,000 new jobs by the year 2000; and ⇒ increase real business spending by an average of nearly $18 billion annually. The effects of increased investment and economic growth would reverberate throughout the entire economy in the form of higher wages and rising living standards. In addition, the United States taxes capital gains more harshly than its major international competitors. Reducing the capital gains tax rate could increase U.S. global competitiveness. Tax Revenue. The historical evidence suggest that capital gains tax reductions tend to increase tax revenue. When capital gains tax rates were lowered in 1978 and again in 1981, revenue climbed steadily. Conversely, when the tax rate was increased in 1987, revenue began declining despite forecasters predictions it would increase. For instance, capital gains tax revenue in 1985 equaled $36.4billion after adjusting for inflation, yet $36.2 billion was collected in 1994 under a higher tax rate. In other words, tax revenue in 1994 was slightly less than it was in 1985 even though the economy was larger, the tax rate was higher, and the stock market was stronger in 1994.Who Would Benefit? A recent NASDAQ Stock Market survey suggests that the notion that all investors are affluent gentlemen coupon-clippers is no longer true. The survey found that: ⇒ stock ownership doubled over the past seven years to 43 percent of the adult population; ⇒ 47 percent of all investors are women; ⇒ 55 percent are under the age of 50; and⇒ 50 percent are not college graduates. The survey results suggest that a capital gains tax reduction would directly benefit many Americans across the income spectrum. More importantly, a tax cut would benefit all Americans by promoting economic growth, thus boosting workers’ wages and living standards. Tax Fairness. The treatment of capital gains is generally unfair and strongly discourages saving and investment -- two activities crucial to economic growth. ⇒ Taxpayers must pay capital gains on illusory, inflation-generated gains. In years of high inflation, this means people may pay capital gains taxes on capital losses. ⇒ The effective capital gains tax rate often exceeds the statutory maximum due to various phase-out provisions in the tax code. ⇒ Saving is subject to three, and sometimes four, levels of taxation. Reducing the capital gains tax rate would mitigate the problem of taxing inflationary gains and would help reduce the bias against saving and investment which prevails under the current tax code.

**Cohen, New America Foundation senior fellow, 2012**

(Michael, July 13, The Democracy Arsenal, “This Week In Threat Mongering—The Debt Version,” <http://tcf.org/blogs/botc/2012/07/this-week-in-threat-mongering-the-debtversion>, accessed 7/7/13, CBC)

The fact is, **if last year's debt limit debacle hasn't already convinced other nations to be skeptical of America's future then I think we're probably in the clear.** Of course, the debt limit debate is instructive in this regard. Even though both parties agreed to a mandated reduction of the defense budget, which would basically return the Pentagon budget to FY 2007 levels (or what some might call, non-crazy levels of spending), the ink was barely dry on the agreement before both parties began falling over themselves to restore the cuts. The House of Representatives even went so far as to take a sledgehammer, earlier this year, to key social safety net programs in order to prevent the Pentagon from taking a haircut. Secretary of Defense Panetta practically ran around Washington with his hair on fire decrying the impact of sequestration cuts. O'Hanlon and Lieberthal's **predictions of doom are fanciful at best and are based on the notion that the world is a dangerous place when in fact it's never been safer.** But even if they are right that their calamitous series of events could occur **there are about $690 billion reasons to believe that the sort of defense cuts that would lead to this series of events will never happen - especially when the country can rely on esteemed national security experts to convince Americans that if it were to occur the world would descend into a dystopian state.** But that isn't even the worst part of the debt is a national security threat argument - O'Hanlon and Lieberthal, as well as pretty everyone else who makes this assertion, don't appear to understand the difference between debt and economic growth. Yes, America's economy is weak; but it has very little to do with the fact that we have a lot of debt. Indeed, the problem is that **the federal government hasn't taken on enough debt in order to grow our economy, create jobs and pull ourselves out of the worst economic downturn since the Great Depression.** Quite simply, the government has failed at one of its most basic responsibilities in the face of economic calamity - spending money (even that which is borrowed) in order to fill the gap in aggregate demand. As Ezra Klein rightly points out, the world is desperate to loan us money so that we can spend it on important national priorities, rebuild out infrastructure and create jobs. Instead we have folks telling us that we should reducing out debt . . . and that it's a national security priority. **So while debt-mongers are right to be concerned about America's economic future, their diagnosis is way off-base**. Indeed **a greater focus on reducing the national debt will mean less resources to grow the economy, less money for infrastructure, less money for improving our education system and less money to support clean energy initiatives** . . . unless O'Hanlon, Lieberthal, Haass and Mullen believe that cutting government spending to reduce the deficit will somehow grow the economy. It won't. Instead it will make things worse.

## A2 Misc

### A2 Opportunity Zones

#### 1. Cost DA Cohen ’18 of the intercept finds that opportunity zones have empirically failed to do much to help inner cities because they divert net investment from one part of the city to another.

#### 2. Turn, opportunity zones are another tax loophole for the wealthy. The Denver Post writes that the most likely outcome is institutions going into these opportunity zones buying real estate to receive the tax incentives but not actually helping the areas. These areas probably will receive little to no benefits and the government doesn’t get tax revenue from these institutions.

Rcahel M Cohen, the intercept 2018, NYTimes <https://theintercept.com/2018/01/30/new-york-times-tax-reform-opportunity-zones/> // ZWS

Last summer, Timothy Weaver, an urban policy and politics professor at the Rockefeller College of Public Affairs & Policy at the University at Albany, [published an article](https://urbanaffairsreview.com/2017/07/18/theyre-back-ben-carson-revives-the-enterprise-zone-the-zombie-idea-that-just-wont-die/) on opportunity zones, tracing their effectiveness in both the United States and the United Kingdom — where the concept originated in the early 1980s.  “Enterprise zones do very little to revive urban areas,” he concluded. “At best, they divert investment from one part of the city from another, resulting in no net gain for the city as a whole. At worst, they result in tax-giveaways to firms that would have been operating anyway, thereby generating a net loss to city revenues. … The enterprise zone is a zombie policy that staggers on despite its moribund performance. It’s time to perform the last rites and bury it once and for all.” Reached for comment on the New York Times article, Weaver told The Intercept that he “was struck by its slap-dash approach to critical engagement.” Put differently, that investors may stand to reap major windfalls does not mean that the communities themselves will be better off. “There is no question that cities — poor areas in particular — need capital investment,” he added. “However, this is a terribly inefficient way of going about it.”

Megan Schrader, 12/19/17, “”Opportunity zones” in GOP tax bill ripe for abuse”, The Denver Post, <https://www.denverpost.com/2017/12/19/opportunity-zones-in-gop-tax-bill-ripe-for-abuse/> //BB

It’s such an attractive policy that Colorado’s Republican and Democratic senators, Cory Gardner and Michael Bennet, signed on as co-sponsors to the original bill introduced by the equally polar opposites Sen. Tim Scott, R-S.C., and Sen. Cory Booker, D-N.J. But the provision included in the GOP tax bill, known as “qualified opportunity zones,” will open up yet another loophole in the U.S. tax code ripe for abuse by tax avoiders and evaders who have no intent to comply with the spirit of the law. The goal of “opportunity zones” is a worthy one: spurring much-needed investment into housing, small businesses and infrastructure in depressed areas. Picture entrepreneurs in Pueblo, Delta and Alamosa getting an infusion of cash because of a simple provision in the GOP tax bill. But the far more likely outcome will be financial institutions setting up qualified opportunity funds to market to their wealthy clients near retirement as a safe place to park their money tax-deferred in a slow-growing market for 10 years. The trade-off being slower growth than the stock market but tax-free gains. To put the size of this provision into perspective, the Joint Committee on Taxation estimated it would cost $7.7 billion from 2018 to 2022. The proposed repeal of the deduction for moving expenses would save only $4.2 billion over the same time. The likely recipients of such investments in Colorado? Well, if I were in the business of helping wealthy clients abuse the tax code, I’d park their qualified opportunity investment in real estate in the most attractive designated opportunity zones on the Front Range and let it sit for 10 years, not really helping these areas, but qualifying under the law for the tax incentives. I’m not some evil tax genius with a unique idea, just a former investigative reporter who has learned to expect the worst from years of covering well-intended tax policies gone awry — like a lease in/lease out transaction for a Florida utility, venture capital tax credits in Oklahoma, and enterprise zones in Colorado. Gov. John Hickenlooper would have 90 days after the tax-cuts bill is signed into law to designate these opportunity zones for the state (not to exceed 25 percent of the low-income qualified census tracts in Colorado) and the U.S. treasurer would have 30 days to review the suggested opportunity zones from every state and approve or deny them. Hickenlooper’s only limitations would be that the zones must: have a poverty rate of at least 20 percent, or, for rural areas have a median family income that does not exceed 80 percent of statewide median, or in a metropolitan area have a median income that does not exceed 80 percent of the metro area’s median income, or (and here’s one place ripe for abuse) be a census tract adjacent to a low income area as long as the median income doesn’t exceed 125 percent of the area median income. Selecting these areas will be crucial to the integrity of the process. Denver’s housing market is one of the hottest in the nation — even in areas that currently may have a sizeable amount of poverty. Think of the ripe-for-development Sun Valley neighborhood near Mile High Stadium.

### A2 People Want CGT

#### First: Capital gains taxes reduce entrepreneurship. The United States Congress explains that the taxation of capital gains discourages innovation, risk-taking, and capital investment, thus diminishing entrepreneurial activity in the economy. Capital gains taxation effects entrepreneurship through its impact on venture capital, an important source of funding for entrepreneurial projects.

#### Second: Capital gains taxes reduces investment. Silvia states that even opponents of a capital gains tax cut concede that there is a lock-in effect. Silvia quantifies this by explain that After the increases in the capital gains taxes in the late 1960s and early 1970s, the unrealized capital gains ratio rose from about 35 percent to almost 60 percent. When investors fail to realize capital gains they are unable to put that money into other investments limiting the growth of the economy.

#### Third: Capital gains taxes hurt job creation. Hakobyan 16 that small businesses are good for workers and unemployment because they hire in an S wave. They hire a large number of people at the beginning of the business then they have a period of flat growth then they hire more as the business grows. This means that small businesses create jobs for the people however this is only possible through investment which is limited by the capital gains tax. We can expect that if the capital gains tax were abolished, unemployment would decrease.

United States, Congress, Joint Economic Commitee, and Jim Saxton. “The Economic Effects of Capital Gains Taxation.” The Economic Effects of Capital Gains Taxation, 1998.

Capital gains taxation further effects economic and employment growth through its impact on entrepreneurial activity and business creation. Entrepreneurship is the driving force of a market economy. It is crucial to job creation, innovation, and productivity. Entrepreneurship is affected by, among other things, the strength of the incentives that motivate entrepreneurs to undertake innovative projects and the ability of the entrepreneur to raise enough capital to finance projects. The taxation of capital gains discourages innovation, risk-taking, and capital investment, thus diminishing entrepreneurial activity in the economy. Capital gains taxation effects entrepreneurship through its impact on venture capital, an important source of funding for entrepreneurial projects. High capital gains tax rates lower the potential return from backing innovative companies, thus restricting the amount of venture capital available to new firms. Some analysts argue that most venture capital comes from tax exempt sources such as pension funds and foreign investment; therefore, a capital gains tax reduction would not have much effect on venture capital. However, several studies indicate that informal venture capitalists are extremely important sources of investment and are e specially critical to the formation of new companies.

Silvia, John. “Cato Institute Policy Analysis No. 242: The ABCs of the Capital Gains Tax.” Cato Institute Policy Analysis No. 242: The ABCs of the Capital Gains Tax, 4 Oct. 1995.

The major explanation for the lower tax collections at higher tax rates is the lock-in effect described earlier.[64] The lock-in effect is generally conceded even by opponents of a capital gains tax cut. The Congressional Budget Office recently stated, "There is strong evidence that realizations of capital gains decline when tax rates on gains are increased."[65] Figure 11 shows the inverse relationship between capital gains realizations and capital gains tax rates from 1977 to 1992. Figure 12 illustrates the lock-in effect differently. It shows, for 1954 through 1994, the ratio of total capital gains earned each year to the amount of those gains that was realized.[66] The figure shows that when the capital gains tax rate is low, the ratio of unrealized capital gains falls (i.e., investors are more likely to sell their assets). After the increases in the capital gains taxes in the late 1960s and early 1970s, the unrealized capital gains ratio rose from about 35 percent to almost 60 percent. After the 1978 and 1981 tax cuts, the 60 percent ratio tumbled to a 40-year low in 1986 of 20 percent. Today the ratio is back up to 45 percent.[67] The reduction in inflation-adjusted capital gains realizations since the 1986 rate increase has been massive. Capital gains realizations, adjusted for inflation, were cut in half in the six years after the 1986 capital gains rate increase took effect. Realizations, which were $213 billion the year before the rate increase, fell to $125 billion in 1990, $108 billion in 1991, and $120 billion in 1992 (the most recent year for which data are available).

Hakobyan, Margarita. “The Role of Entrepreneurship in Job Creation and Economic Growth.” The Huffington Post, TheHuffingtonPost.com, 14 Nov. 2016, www.huffingtonpost.com/margarita-hakobyan/the-role-of-entrepreneurs\_b\_12964394.html.

But small businesses are much more flexible and nimble in terms of adjusting to changing market conditions than big businesses. Small businesses might operate on a time scale of weeks or months, whereas big businesses need to talk years in advance in order to get things done. When they see an opportunity, a small business is able to quickly react to take advantage of it. By the time a big business has enough meetings and approvals to act, the chance may very well have passed. Competition pushes companies to streamline. While small businesses are more nimble overall, big businesses that survive disruption generally push to become more streamlined, to maintain their power while reducing their bulk. Streamlining big businesses can drive innovation just as much as nimble small businesses can. When big businesses streamline in order to respond to small businesses, they end up pushing other big businesses to move in a different direction as well. When experts look at small businesses on the whole, they say that small businesses create jobs in an S wave. A large number of people are hired at the beginning of a business, then there is a period of flat growth as competition right-sizes or closes, and then an increase as the smaller business grows. As a small business becomes big, it faces additional challenges from other small, startup companies that are able to innovate more quickly and disrupt more intensely. This can be seen with Apple; while Apple remains a lifestyle brand that many people happily pay a premium for, they have not been considered the top of the tech field for some time.

### A2 Good for Middle Class

#### First: The capital gains tax only hurts the middle class more than redistributing wealth Goldman explains that the CGT falls overwhelmingly on the middle class and is not a means of redistributing wealth from the rich to the poor. The wealthy may for the most part avoid the tax through well-known and commonly used techniques. Because the upward-striving middle class is the key to economic growth, the capital gains tax harms the economy by creating a disincentive to thrift and investment.

#### Second: Capital gains taxes hurt the poorest the worst Moore states that when the government puts a high tax on capital gains, the people who lose the most from a high rate are the poorest, the youngest, those at the beginning of their careers, and those who are furthest from the sources of capital thus it is widely called a tax on the American Dream.

David Goldman, Managing Director of Bear Stearns and Co. Inc., and Evan Kalimtgis, Vice President in the Financial Analytics Structured Transactions Group at Bear Stearns and Co. Inc., June 1, 1995 “Capital Gains: A Tax on the Middle Class,” The Manhattan Institute, https://www.manhattaninstitute.org/html/capital-gains-tax-middle-class-5605.html (accessed 1/4/18) The capital gains tax falls overwhelmingly on the middle class, specifically, on savers and entrepreneurs, the most thrifty and industrious members of the middle class. It is not a means of redistributing wealth from the rich to the poor: the wealthy may for the most part avoid the tax through well-known and commonly used techniques. Because the upward-striving middle class is the key to economic growth, the capital gains tax harms the economy by creating a disincentive to thrift and investment. The capital gains tax should be cut substantially or, better, abolished altogether.

Stephen Moore, director of fiscal policy studies at the Cato Institute, and John Silvia is chief economist at Kemper Financial Services, October 4, 1995 "CATO Institute Policy Analysis No. 242: The ABCs of the Capital Gains Tax," CATO Institute Policy analysis https://object.cato.org/sites/cato.org/files/pubs/pdf/pa242.pdf (accessed 1/4/18)

Economics consultant Jude Wanniski recently told the Senate Finance Committee, When the government puts a high tax on capital gains, the people who lose the most from a high rate are the poorest, the youngest, those at the beginning of their careers, those who are furthest from the sources of capital. . . . The people who ultimately benefit from a capital gains tax cut are those who have no wealth, but aspire to it. The capital gains tax has been described as a tax on the American dream. For many low- and moderate-income workers, one of the few ways of accumulating wealth is through investment in stocks and businesses.

### A2 Charities

#### 1. Their impact isn’t as big as they would like to paint it out to be. Kelly Holland of CNBC 14 writes that the rapid growth in contributions to donor-advised funds has not been matched by grants to charities from those funds

#### 2. The funds aren’t even that effective. Holland 14 furthers that companies offering these funds also manage to profit from them, in the form of fees assessed on the donor-advised fund accounts.

Kelley Holland; 15 December 2014; CNBC; “The pros and cons of donor-advised funds,” https://www.cnbc.com/2014/12/15/the-pros-and-cons-of-donor-advised-funds.html

But the rapid growth in contributions to donor-advised funds has not been matched by grants to charities from those funds. At $9.66 billion, grants increased 12.6 percent — hardly shabby, but only slightly more than half the growth rate of the contributions coming into donor-advised funds. "That's the part the charities find difficult, the fact that there is no payout requirement," said Stacy Palmer, editor of The Chronicle of Philanthropy.

Kelley Holland; 15 December 2014; CNBC; “The pros and cons of donor-advised funds,” https://www.cnbc.com/2014/12/15/the-pros-and-cons-of-donor-advised-funds.html

But critics charge that companies offering these funds also manage to profit from them, in the form of fees assessed on the donor-advised fund accounts. Fidelity charges donors 0.6 percent of the first $500,000 in a donor-advised fund account, for example, and donors with assets invested in mutual funds also pay the fees associated with those funds. Fees associated with the accounts vary. Laughton said Schwab clients' donor-advised fund assets are in either very low-cost, no-load funds or "best-in-class performers in their various asset classes." She added that Schwab Charitable's assets represent 0.27 percent of Schwab's total assets, and that "the amount of investment Schwab has made in Schwab Charitable far exceeds any revenue they would have generated.