We negate resolved: The United States should abolish the capital gains tax.

Contention 1: Opportunity Zones

Contention One: New Opportunities

Although the U.S. economy has been growing, many communities have been left behind. The Economic Innovation group explains that **52 million people live in distressed communities whose fate is diverging from the rest of the country.**

The Economic Innovation Group quantifies that: **in the average distressed community 25% of the population lives in poverty. And From 2011 to 2015 distressed communities saw an average 6% decline in employment and 6.3% average drop in business establishments.**

Dunne of the Hill reports in **2018** investment could revitalize these communities, as they present overlooked yet compelling opportunities for smart investment and economic renewal.

Fortunately, the government is addressing those who are being left behind right now. Tankersley from the New York Times reports in January 2018 that the new tax plan: **creates "Opportunity Zones," which will use tax incentives to draw long-term investment to parts of America that continue to struggle with high poverty sluggish growth.**

He furthers: **More than $2 trillion in unrealized capital gains are sitting on balance sheets doing nothing. In order to bring those funds into distressed communities new law provides capital gains tax cuts to investors who seed new businesses in those areas or expand existing businesses.**

With the capital gains tax, there is an advantage to investing in these areas rather than elsewhere.

However, without the capital gains tax, investors no longer have an incentive to invest in these developing areas, as there is not tax deduction.

The impact to investing in opportunity zones is alleviating poverty.

O'Keefe of California State University writes in 2003, the Enterprise Zone program [which is identical to opportunity zones] improved economic development in the most depressed areas throughout the 1990s.Enterprise Zones experienced enhanced employment. Each year, employment was 2 to 3 percent higher in zones compared with areas that were most similar to the zones in 1990.

Contention 2: Preventing Monopolies

Jeffery of the Business Journal reports **last week**, Last year saw [a 15% decline from in] mergers and acquisitions. However, eliminating the capital gains tax puts this decline in jeopardy. **Lars Feld from the**

University of Freiburg finds that capital gains taxation has long been identified as a potential obstacle for the efficient allocation of assets. Being generally paid upon the realization of gains, these taxes impose additional payments on the vendor. To compensate for this, the vendor demands a higher price and thus shifts part of the tax burden to the acquirer and, as a consequence, some deals fail because the prospective acquirer is not willing to bear increased acquisition cost.
For this reason, he finds empirically that a one percentage point decrease in the corporate capital gains tax rate would raise the number of acquisitions by about 1.1% per year.

The impact to monopolies is two-fold

First, increasing income inequality

The New York Times explains in **2015** with fewer competitors to worry about, consolidated businesses can raise prices more easily without worrying about losing customers. Because companies no longer have to worry about paying their workers well because there is nowhere to go, **Ma of the University of North Carolina** finds in **2017** that an increase in merger and acquisition activity by 1% increases wage disparity by 18.7%

Second, Increasing unemployment.

Samuels of the Atlantic writes in **2017** mergers create redundancies—businesses don't need two divisions of accountants, or wo canneries that are in the same geographic area, for example. To eliminate those redundancies, businesses often cut jobs after mergers. And those job losses often fall on people [who] have fewer other employment options.

The University of Pennsylvania reports in **2005** "the investment community focuses on costs. They generally always like the idea that you can cut workers" and save money when mergers and acquisitions. Also, mergers of large corporations rarely consider the effects of layoffs on local communities

Empirically, Conyon of the University of Nottingham finds that: **after mergers there is a 10% decline in employment.**

For these reasons, we negate.

We negate resolved: The United States should abolish the capital gains tax.

Contention 1: Opportunity Zones

Rural America is falling into despair in the status quo. Dunne of the Hill reports in 2018

Matthew Dunne "Opportunity Zones are a chance for us to rebuild rural America." *TheHill*. 15 Feb. 2018. Web. 15 Feb. 2018. <http://thehill.com/opinion/finance/374030-opportunity-zones-are-a-chance-for-us-to-rebuild-rural-america>

Whereas most metro areas have seen a strong recovery **since 2009**, with employment exceeding pre-recession levels, **rural economies have largely stagnated or are in crisis. Many large employers in the manufacturing sector have left small towns, and entrepreneurship and investment have declined as well. Less than 1 percent of venture capital dollars now go to rural entrepreneurs.** The repercussions of this economic decline are as troubling as they are wide-ranging. Young people with college degrees are moving to urban areas at an unprecedented rate, leading to the first ever net population decline in non-metro areas in recent history. Individuals in non-metro areas are 43 percent less likely to have a bachelor's degree than their urban counterparts. And rural communities are facing an opiate epidemic never seen before, with an estimated 75 percent of opiate addicts living in non-metro areas. Finally, the advent of automation in the farming, manufacturing and transportation sectors has hit rural areas disproportionately, eliminating a significant number of jobs and putting many more at risk.

However, investment could easily bolster these communities. He furthers that

This potential is real. **Many rural communities present overlooked yet compelling opportunities for smart investment and economic renewal.** Historic rural downtowns offer beautiful homes and authentic work spaces at a fraction of urban costs and come with immediate access to natural beauty, clean air and fresh produce. **University and college campuses in rural regions provide the foundation for tech transfer and knowledge economy jobs**. From the Center for Innovation and Entrepreneurship at the Colorado School of Mines in Golden, Colorado, to the Dartmouth Entrepreneurial Network in Hanover, New Hampshire, to the Ohio University Innovation Center in Athens, Ohio, rural university resources often drive local and regional economies. Even schools without dedicated entrepreneurship resources generate talent and ideas that keep their local economies vibrant. It's also surprising how many small towns across the country that have built fiber to the home in recent years, now enjoying gigabit-speed internet that surpasses most urban offerings. Some towns, like Williamstown, KY (population 3,900), received a federal broadband grant. Others developed fiber networks under a municipal utility model, like the Powell Fiber Optic Network in Powell, Wyo. (population 5,700), or crowd-funded the effort, like RS Fiber in central Minnesota. This **infrastructure allows entrepreneurs to access customers, partners, and world class computing power from anywhere. Unfortunately, with so much attention on the urban core over the past twenty years, research on rural economies has dwindled, as have programs that foster rural economic revitalization. Economic diversification through entrepreneurship as well as connections to knowledge economy jobs are critical for building resilience in rural economies.**

Fortunately, the new tax bill provides an incentive for investors to invest in these regions. Tankersley from the New York Times reports in January 2018 that Trump's new tax plan

Jim Tankersley. "Tucked Into the Tax Bill, a Plan to Help Distressed America." *Nytimes.com*. 29 Jan. 2018. Web. 8 Feb. 2018. <https://www.nytimes.com/2018/01/29/business/tax-bill-economic-recovery-opportunity-zones.html>

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. They could also deliver a windfall, in the form of avoided capital gains taxes, for corporations and financiers who invest in the Opportunity Zones. **[corporations and financiers will invest in opportunity zones to avoid capital gains taxes]**

He furthers,

Economic development professionals in those areas have struggled to attract the attention of companies and venture capitalists, who channel most of their money to major cities. To bring those investors into distressed communities "you have to hit them in their sweet spot, and their sweet spot is, **they pay a lot of capital gains taxes**," said Donald Hinkle-Brown, president and chief executive of Reinvestment Fund, a community development group. **The new tax law provision** plays to that sweet spot. It instructs governors in each state and territory, along with the mayor of the District of Columbia, to designate Opportunity Zones from a pool of low-income, high-poverty census tracts, subject to certification by the Treasury secretary. States cannot nominate all their qualifying tracts for that status — they are limited to only a quarter of eligible tracts. **[encourages] Investors**, like banks or hedge funds, then **[to] create Opportunity Funds to seed either new businesses in those areas, expansions of existing ones or real estate development.** The people who invest in Opportunity Funds are able to minimize their tax burden through preferential treatment of capital gains. **The people who invest in Opportunity Funds are able to minimize their tax burden through preferential treatment of capital gains. More than $2 trillion in unrealized capital gains are sitting** on individual and corporate balance sheets across America, according to the Economic Innovation Group, the result of profitable investments in stocks and mutual funds. Normally, the proceeds from the sale of those assets would be taxed as a capital gain, at a maximum federal rate of 20 percent plus a 3.8 percent surtax. The new law offers investors an alternative: **to roll those unrealized gains into an Opportunity Fund,** and defer federal taxes on the profit, at least temporarily. That deferral grows into capital gains tax relief the longer the investment is held. An investor who retains an investment for seven years will pay only 85 percent of the capital gains taxes that would have been due on the original investment. If the investment is held beyond 10 years, the investor permanently avoids capital gains taxes on any proceeds from the Opportunity Fund investment.

Without the capital gains tax, investors no longer have an incentive to invest in these developing areas.

The impact to investing in opportunity zones is alleviating poverty.

O'Keefe of California State University writes in 2003

Suzanne O'Keefe *Department of Economics California State University, Sacramento). "Job Creation in California's Enterprise Zones: A Comparison Utilizing a Propensity Score Matching Model." January 22, 2003.

The Enterprise Zone program improved economic development in the most depressed areas of California **throughout the 1990s.** Results suggest that **Enterprise Zones experienced enhanced employment. Each year, employment was 2 to 3 percent higher in zones compared with areas that were most similar to the zones in 1990.** Earnings did not rise as quickly in Enterprise Zones as in matched areas, but this finding was not statistically significant. The propensity score matching model provides a valid control group for Enterprise Zones, and results demonstrate that Enterprise Zones appear most effective when compared with this control group. Previous research that compares employment in Enterprise Zones to employment in areas dissimilar to Enterprise Zones may underestimate the impact of the program. The census tract and establishment level analyses effectively isolate the impact of the Enterprise Zone program.

Contention 2: Preventing Monopolies

Right now, monopolies are on the decline. Jeffrey of Biz Journals reports just last week:

Jeff Jeffrey, 18, 2-5-2018, The Price is Wrong: Why merger and acquisition activity is slowing ion Wall Street and, well, everywhere despite recent big deals involving Amazon, Whole Foods, Mars Inc., and Tyson Foods, Business Journals, https://www.bizjournals.com/bizjournals/news/2018/02/05/the-price-is-wrong-why-merger-activity-is-slowing.html (NK)

Don't expect tax reform or the stock market's gains to reverse the recent slowdown in merger and acquisition activity. The reason: The prices just ain't right. **Last year saw** $2.93 trillion in **[a 15% decline from in] mergers and acquisitions close in North America** and Europe, a 15 percent decline from the amount recorded in 2016. The falloff was more severe relative to deal volume, as the 19,510 transactions recorded in 2017 marked a 16.8 percent decline from the prior year, according to data

compiled for the Business Journals by Pitchbook.com. The dealmaking was particularly concentrated among real estate developers, drug firms and energy concerns. The result: M&A in 2017 was somewhat polarized, geographically, with the bulk of deals closing where those sectors are strongest — in the nation's Southwest and Northeast.

Steve Pressman (The Conversation). "Why workers won't benefit from Trump's corporate tax cut." November 25, 2017. https://www.salon.com/2017/11/25/why-workers-wont-benefit-from-trumps-corporate-tax-cut_partner/
Yet, based on past tax cuts, economists have estimated that only 20 percent of the corporate income tax is borne by workers, suggesting that they would get just a small fraction of any corporate tax reduction. Furthermore, when asked how they'd spend the gains from a tax holiday on the $2.5 trillion that they currently have parked overseas — which is also part of the corporate tax cut plan — **most companies indicated they'd** pay back debt, repurchase shares or **invest in mergers and acquisitions.** Wage hikes were not high on the corporate agenda. Nor have they been part of the corporate agenda for the past several decades. Since the 1970s worker productivity has increased 74 percent, while average wages have risen only 12 percent. **There is no reason to believe that tax cuts would all of a sudden generate greater corporate generosity for workers.** As for lower prices, if the U.S. economy were dominated by small businesses, intense competition would force these companies to lower prices rather than give it to shareholders in the form of dividends. Reduced prices for goods would translate into improved living standards for workers the same way that a wage hike would. But our economy **today is dominated by large multinational corporations facing little pressure to reduce prices. So, the gains from a corporate tax cut will remain with the owners of the business — shareholders.** Furthermore, corporate CEOs have large incentives to avoid passing the gains from a tax cut to workers: Executive pay is tied to the company's share price. If they pass the extra money on to shareholders in the form of dividends or stock buybacks, share prices will rise — as will executive pay packages.

The capital gains tax makes it more difficult for large companies to buy up smaller ones. Lars Feld from the University of Freiburg

Lars Feld "Taxing Away M&A: The Effect of Corporation Capital Gain Taxes on Acquisition Activity" University of Freiburg. 30 Aug. 2016. Web. 13 Feb. 2018. <https://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Events/conferences/2016/Doctoral_mtg_2016/todtenhaupt.pdf>
Capital gains taxation has long been identified as a potential obstacle for the efficient allocation of assets (e.g. Feldstein & Yitzhaki, 1978). **Being generally paid upon the realization of gains, these taxes impose additional payments on the vendor** in the case of a stock sale which the vendor could have deferred in the absence of such a deal. Selectively, the vendor's reservation price increases and the completion of the sale is impeded (e.g. Holt & Shelton, 1962; Landsman & Shackelford, 1995). **This lock-in effect has direct implications for the market of corporate mergers and acquisitions** (M&As). Capital gains taxation implies that M&A deals generally trigger tax payments for the vendor rm on accrued capital gains that have been retained in the target. **To compensate for this, the vendor demands a higher price and thus shifts part of the tax burden to the acquirer and, as a consequence, some deals fail because the prospective acquirer is not willing to bear increased acquisition cost**. By preventing these otherwise value increasing deals, capital gains taxation therefore generates an efficiency loss from the shareholder perspective.

In fact, he finds empirically that a

Lars Feld "Taxing Away M&A: The Effect of Corporation Capital Gain Taxes on Acquisition Activity" University of Freiburg. 30 Aug. 2016. Web. 13 Feb. 2018. <https://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Events/conferences/2016/Doctoral_mtg_2016/todtenhaupt.pdf>
Taxing capital gains is an important obstacle to the efficient allocation of resources because it imposes a transaction cost on the vendor. This locks in appreciated assets by raising the vendor's reservation price in prospective transactions. For M&As, this eect has been intensively studied with regard to the incidence of taxation, whereas empirical evidence on the quantity effect of capital gains taxes is scarce. This paper analyzes how rm level taxation of capital gains aects inter-corporate M&As. Employing several substantial tax reforms for identification, we present evidence for a significant lock-in effect with regard to M&A activity. Results from estimating a Poisson pseudo-maximum-likelihood (PPML) model suggest that a **one percentage point decrease in the corporate capital gains tax rate would raise the number of acquisitions by about 1.1% per year.** We use this result to estimate an efficiency loss resulting from corporate capital gains taxation of 3.06 bn USD per year in the United States. In addition, we use deals that are not affected by corporate capital gains taxes as a control group to verify that our results are not driven by confounding variables

Mergers and acquisitions build monopolies that dominate the American economy. The New York Times reports in November of 2015

"Opinion | How Mergers Damage the Economy." *Nytimes.com*. 1 Nov. 2015. Web. 13 Feb. 2018. <https://www.nytimes.com/2015/11/01/opinion/sunday/how-mergers-damage-the-economy.html>

A recent paper by two economists, Jason Furman and Peter Orszag, says that **consolidation** might **have contributed to the trend of some businesses earning** "super-normal **returns**" **that are about 10 times as large as the median returns**, up from three times in the early 1990s. This trend may have driven the rise in income inequality by increasing the income of executives and shareholders of those businesses relative to everybody else. In addition, two finance professors at the University of Southern California estimate that nearly a third of American industries were highly concentrated in 2013, up from a quarter of all industries in 1996, according to The Wall Street Journal.

The impact to monopolies is two-fold

First, increasing income inequality

The New York Times explains in 2015

"Opinion | How Mergers Damage the Economy." *Nytimes.com*. 1 Nov. 2015. Web. 13 Feb. 2018. <https://www.nytimes.com/2015/11/01/opinion/sunday/how-mergers-damage-the-economy.html>

Officials approved two big airlines mergers — United and Continental, and American and US Airways. Just four national airlines now carry the vast majority of domestic passenger traffic, down from six when Mr. Obama came into office. The big carriers control so many gates and takeoff and landing slots at their hub airports that other airlines can't mount a real challenge. **With fewer competitors to worry about, consolidated businesses can raise prices more easily without worrying about losing customers.** And they can actively or tacitly collude with the remaining players in the industry to fix prices or production levels. The Justice Department is investigating whether the big airlines have agreed not to add more flights to keep their planes full and fares high.

Because companies no longer have to worry about paying their workers well because there is nowhere to go, Ma of the University of North Carolina finds in 2017 that

Wenting Ma. (UNC Chapel Hill). Mergers and Acquisitions, Technological Change and Inequality. January 2017. https://extranet.sioe.org/uploads/sioe2017/ma_ouimet_simintzi.pdf

To test the effect of wages on wage polarization following M&A activity, we look at the standard deviation of wages, as in Barth, Bryson, Davis, and Freeman (2015). Table 5 presents results using hourly wages as our measure of wages. Columns 1 and 4 use the change in standard deviation of wages (log transformed) as the dependent variable and shows a positive correlation between lagged M&A activity and wage disparity. An increase of lagged M&A activity by 1% in a sector is correlated with a 1.5% increase in the change in the standard deviation of wages in that sector. Alternatively, when we perform our analysis at the industry-local level, we find that a 1% increase in M&A activity is correlated with a 19% increase in the change in the standard deviation of wages. In columns 2-3 and 5-6, we show the positive correlation also holds in the time-series. Within industries, an increase in M&A activity by 1% increases wage disparity by 2.1% (column 2). Within industry-commuting zones, **an increase in M&A activity by 1% increases wage disparity by 18.7%** (column 4). The larger wage dispersion we identify in affected industries-commuting – 16 – zones may be explained by the fact that local labor markets are naturally more segmented as compared to more aggregate industry labor markets, and thus characterized by lower outside options for low-skill workers but also greater scarcity of talent

Second, Increasing Unemployment.

Alana Semuels (The Atlantic). "The Downsides of 'Efficiency'." March 2, 2017. https://www.theatlantic.com/business/archive/2017/03/mergers-efficiency/518031/

But **mergers** also **create redundancies—businesses don't need two divisions of accountants, or two canneries that are in the same geographic area, for example. To eliminate those redundancies, businesses often cut jobs after mergers. And those job losses often fall** the hardest **on** small communities like this one, where **people [who] have fewer other employment options.** Antitrust law seeks to limit the downsides of

monopolies, but it focuses on the effects on consumers, not workers. Regulators look at whether a merger lessens competition, which could increase costs, reduce quality, and decrease consumers' ability to choose. But they would not block a merger because it eliminates jobs, said Daniel Crane, a professor at University of Michigan Law School. "The focus is on consumers and on economic efficiency as opposed to preserving jobs," he said. "There are conversations about whether we have it right or not, but that certainly is where the law and practice is today."

NA (Wharton Business School at the University of Pennsylvania). "The Human Side of Mergers: Those Laid Off and Those Left Aboard." March 30, 2005. http://knowledge.wharton.upenn.edu/article/the-human-side-of-mergers-those-laid-off-and-those-left-aboard/

The reasons why, many say, are simple. **"The investment community focuses on costs. They generally always like the idea that you can cut workers" and save money when mergers and acquisitions** are announced, says Peter Cappelli, director of Wharton's Center for Human Resources. "But it's difficult for them to factor in the associated costs of layoffs, declining morale, and the chaos" that comes from restructuring. Because the investment community can't easily measure these costs, "they don't factor them in, and that's one reason why mergers rarely work out." **Also, mergers of large corporations rarely consider the effects of layoffs on local communities** because "they are such a small part of the overall global economy and their effect on it is tiny," says Cappelli. Corporate boards used "to care about the local economy, but the change in governance of corporations means that they focus primarily on the concerns of the shareholders." When it comes to the well-being of the employees, he says, "they don't care." Perhaps they should. Mergers that result in layoffs can be a "devastating experience, both psychologically and physically" for those who lose their jobs, says Sigal Barsade, a professor of management. People who are fired or laid off often get sick and develop stress-based illnesses. Recent studies have even shown that "being laid off and then rehired is associated with more work-related injuries and days off than just receiving a warning notice, or of course, not being laid off at all. So even if you rehire employees, there can be damage."

M. Conyon. (University of Nottingham). The Impact of Mergers and Acquisitions on Company Employment in the United Kingdom 2005
https://pdfs.semanticscholar.org/860a/406eb97b9b2a4d32235826fd9b72d2cb0d89.pdf

Table 6
Post merger % change in employment and output
Related vs unrelated

Merger type and variable	t+1	t+2	t+3	t+4
Related				
Employment	-10.3*	-10.3*	-11.4*	-9.8*
Output	-10.5*	-9.4*	11.9*	-9.1*
Unrelated				
Employment	2.8	1.2	0	0
Output	0	-2.9	-2.2	-3.4*

Table 7
Post merger % change in employment and output
Friendly vs hostile

Merger type and variable	t+1	t+2	t+3	t+4
Friendly				
Employment	-6.6*	0	-1.5	1.3
Output	-5.8*	0	-2.1	1.7
Hostile				
Employment	-12.7*	-21.1*	-12.9*	-16.7*
Output	-14.7*	-15.2*	-6.1	-10.3*

Notes:

(i) The figures in the above tables refers to differences between the post-merger values of the acquiring firms and the combined (acquired and acquiring) values of the respective variables one year prior to the mergers (i.e. t – 1)

(ii) (*) denotes significant differences (at 10% level) from the pre-merger values, where the standard errors of the regression parameters are robust to arbitrary heteroscasticity and within-firm serial correlation.

Egan of CNN writes that our economy is on the verge of becoming overly volatile. This is because the Trump tax cuts have increased investment in the stock market outpacing the supply of the market. **Pinsent from Investopedia writes that speculation can be quite a bit cheaper to purchase in comparison to the actual stock. We've reached a point in our economic life cycle where the return for speculation is much higher than capital gains.** This means that any new investment is going toward speculation. In fact, Investopedia reports that the contracts in the speculative market is over 12 trillion dollars. This is important for three reasons

1. It delinks them from all their impacts. In so far as investment is going to the speculative economy and not into capital and WHATEVER
2. It's a reason to vote for us. Speculation is risky betting on future price of companies. When these bets don't work out, it causes market collapse because so much money is invested in things that are unreliable.
3. Dam of Medium reports in 2017 that speculation is really bad, because Overreactions of financial markets will therefore have bigger effect on the real economy. It is probably fair to say that almost all financial crisis since 1630s can be attributed to some sort of mass speculation. Speculation is never good because it never contributes to the productive economy. [it] diverts resources away from production and productive capital and into the speculative game.
4. It prereqs all their impacts. As so far as a recession is happening, it makes X and Y BLAH BLAH BLAH. If any sort of money is going to speculative economy, we win the round.

1. Delink: Neither investors or entrepreneurs really consider tax rates when investing or starting a business idea. **Fleischer of U San Diego explained in 2016** that entrepreneurship is all based on the success of the idea, not the calculation of the final result. Thus entrepreneurs don't take on risk, but uncertainty, which is why there is little empirical evidence that the CGT impacts it. Also, investors are often tax exempt pension funds but even taxable venture capitalists are unaware how those investments will be taxed.

2. Turn: The capital gains tax is very unique in that capital losses can offset capital gains. **Clare Wang** of the **Journal of Public Economics** explains in **2016** that a stock/company with high systematic risk, such as entrepreneurs, become more attractive with a capital gains tax because the although the government takes a chunk of gains, they also absorb a larger chunk of any losses. **Wang** continues to quantify that because of this a one percentage point increase in the capital gains tax leads to a 0.76 percentage point increase in the rate of return, signifying increased investment.