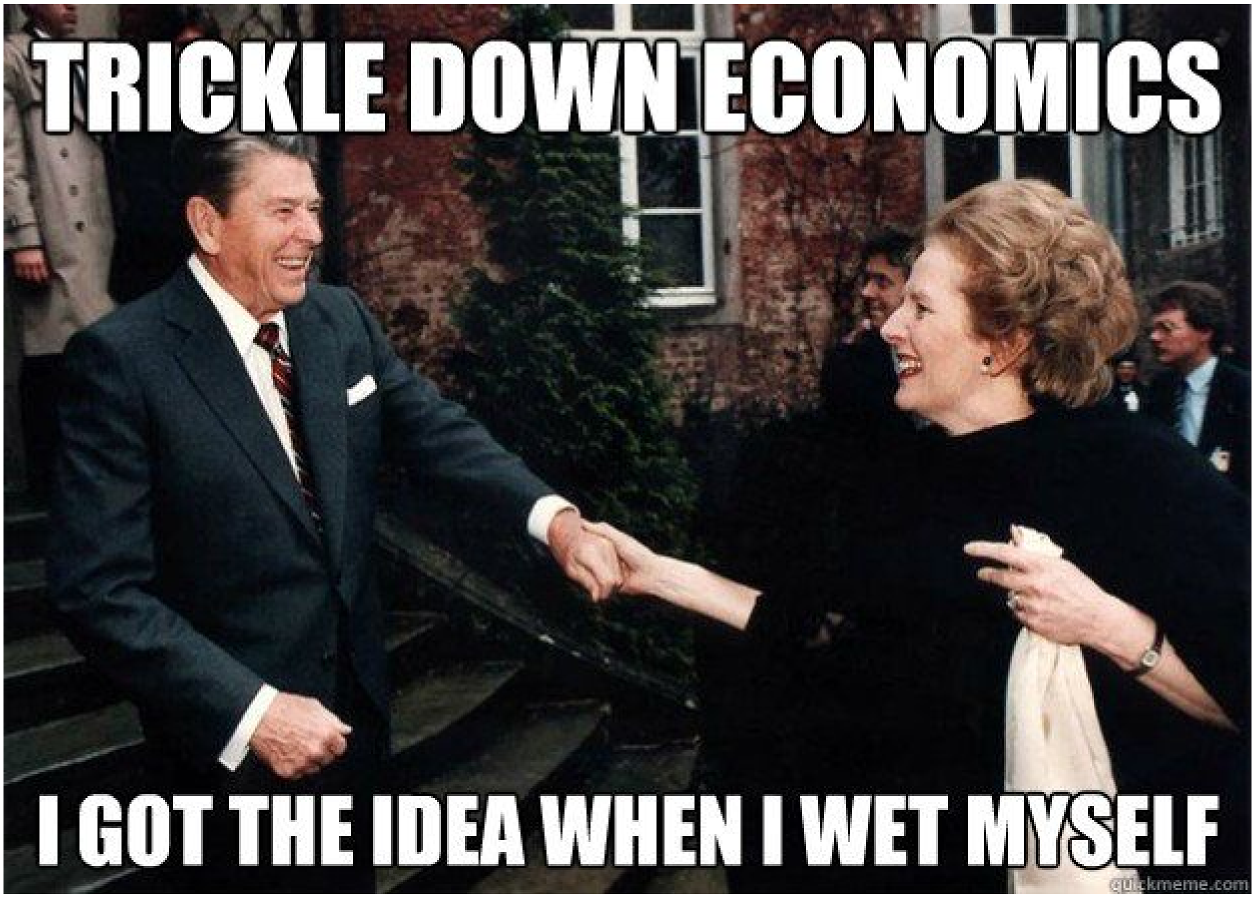
NEG Blocks

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



Overviews

Overheating

Egan of CNN writes that our economy is on the verge overheating, where the market becomes overly volatile. This is because the Trump tax cuts have increased investment in the stock market outpacing the supply of the market. **Borak of CNN Money reports** that faster economic growth from tax cuts when the labor market is healthy could cause the economy to grow too quickly, leading to inflation over time. Sure

Enough, **The President of the New York Federal Reserve corroborated in 2018** that if the labor market continues to tighten the economy will grow at an unsustainable rate. **Lim of Time Magazine 5 days ago explained that** in this past week or so, this process seems to be beginning. The Dow lost nearly 10% of its total worth in the past couple of weeks, and things seem to only be getting worse as inflation rises. [*link to recession*]. Voting pro and risking recession would put the current declining rate of unemployment at risk. As **CNN** reports that last recession saw 2.6 million people lose their jobs.

Dudley – 18 – President and CEO of the Federal Reserve Bank of New York (William C. Dudley, 1-11-2018, "The Outlook for the U.S. Economy in 2018 and Beyond," Remarks at the Securities Industry and Financial Markets Association, New York City, https://www.newyorkfed.org/newsevents/speeches/2018/dud180111, malia – 1/24/2018)

For example, the CBO projects that debt service costs in 2027 will be more than $800 billion—nearly 3 percent of GDP, more than double their current share.10 / Finally, the retirement of the baby boom generation over the next decade will put considerable pressure on outlays. The CBO projects that, by 2027, outlays on Social Security and Medicare will rise to 6 percent and 5 percent of GDP, respectively—each more than a percentage point higher than in 2017. / As the economist Herbert Stein once remarked, trends that are unsustainable must end. How, precisely, the United States [US] chooses to address its fiscal challenges will have important consequences for the economy, monetary policy, and financial markets in the years ahead. / To sum up, **I am optimistic about the near-term economic outlook** and the likelihood that the FOMC will be able to make progress this year in pushing inflation up toward its 2 percent objective. The economy has considerable forward momentum, monetary policy is still accommodative, financial conditions are easy, and fiscal policy is set to provide a boost. **But, there are some significant storm clouds over the longer term. If the labor market tightens much further, it will be harder to slow the economy to a sustainable pace, avoiding overheating and an eventual economic downturn.** Another important issue is the need to get the country's fiscal house in order for the long run. The longer that task is deferred, the greater the risk for financial markets and the economy, and the harder it will be for the Federal Reserve to keep the economy on an even keel.

Matt Egan, 17, 10-5-2017, The Dow could be so hot that it melts, CNNMoney, http://money.cnn.com/2017/10/05/investing/dow-melt-up-stock-market/index.html , 2-9-2018, (NK)

Just like with ice cream and wine, too much of a good thing for the stock market could eventually become a bad thing. **The stock market is clearly on fire right now. The S&P 500 soared to an all-time high on Thursday for the sixth day in a row. That hasn't happened since June 1997**, according to LPL Financial. The Dow notched its 63rd record high since the election and is rapidly approaching the 23,000 level for the first time ever. Keep in mind, the blue-chip average sat at 18,333 on Election Day. These stellar gains look amazing for your 401k portfolio (and President Trump's Twitter feed), but **some worry the market is on the verge of overheating.** "Right now, it feels like the early stages of a melt-up," said Ed Yardeni, president of investment advisory Yardeni Research. **Everyone knows market meltdowns are scary. But "melt ups" are dangerous too. These relentless, unsustainable market rises end in tears because they aren't supported by fundamentals -- the economy and corporate profits. "Melt ups are irrational. Too much of a good thing, too fast. It has to be followed by a meltdown,"** said Yardeni. Jeffrey Saut, chief investment strategist at Raymond James, is growing worried about the red-hot market, too The stock market "appears to be involved in a 'melt up,'" Saut wrote in a research report published on Tuesday. CNNMoney's Fear & Greed Index is signaling euphoria right now. This gauge of market sentiment is flashing "extreme greed" at a level of 94 out of 100.

Paul J. Lim February 5, 2018, 18, 2-5-2018, Why the Stock Market Is Crashing Now, and What You Should Do About It, Money, http://time.com/money/5132906/stock-market-crashing-what-to-do/ , 2-9-2018, (NK)

After being on cruise control for months, the stock market hit a giant speed bump **on Monday**, when **the Dow Jones** industrial average plunged — tumbling more than 1,500 points at one point after sinking 665 points on Friday. By the close, the Dow had **lost around 2,200 points since Jan. 26, closing in on a 10% decline** — which would mark the start of an official "correction." So **why is the stock market suddenly starting to plunge? Chalk this up to a case of "be careful what you wish for.**" On paper, Wall Street should be rejoicing right now — not racing to cash out as investors have been doing lately. **Investors,** after all, **recently got the corporate and income tax cuts they've been clamoring for. The economy is accelerating for real, with U.S. gross domestic product now expanding at a annual pace of more than 3% (after inflation) for three straight quarters. And for the first time in a long while, it appears that worker wages are finally beginning to lift,** with average hourly earnings rising to $26.74 in January — a 2.9% increase over the past year. This represents the fastest rate of wage growth in nearly nine years, since the end of the Great Recession. And it effectively marks the end of the global economy's war against deflation, which had been the biggest economic threat since the financial crisis began more than a decade ago**. In theory, these are all bullish developments. Yet stocks are going in the opposite direction. That's largely because the natural outgrowth of an expanding economy and rising wages is inflation**, **which hasn't been a real threat to the economy in nearly three decades. Investors now believe it is. Is inflation really heating up? Yes. Even though it seems tame right now — the consumer price index is up a modest 2.1% over the past 12 months — there's a good chance inflation could start to pick up steam**. Why? For starters, "signs indicate that wage growth is headed even higher later this year," says Brad McMillan, chief investment officer for Commonwealth Financial Network For example, the labor force participation rate — which measures the percentage of the working-age population that is employed or looking for work — "seems to have hit an upper bound at around 63% and has been bouncing around somewhat below that," McMillan notes. Even with wages and job creation accelerating, January's labor participation rate was 62.7%, which is about where it's been for four straight months. "This could be a sign that all of the workers available, or close to it, are now working," he says. And if that's the case, companies seeking to employ new workers may have to shell out even higher wages to attract talent, potentially pushing inflation up even higher

Donna Borak. "Tax cuts risk overheating U.S. economy, warns Fed official." *CNNMoney*. 11 Jan. 2018. Web. 9 Feb. 2018. <http://money.cnn.com/2018/01/11/news/economy/ny-fed-economy-outlook-2018/index.html>
Economic prospects in 2018 are looking "reasonably bright," Dudley said in a speech to the Securities and Financial Markets Association on Thursday. He expects unemployment to remain low and wages to quickly rise. But Dudley warned that central bankers may have to "press harder on the brakes" at some point in the next few years to help stave off a possible recession. Dudley said **faster economic growth from tax cuts when the labor market is healthy and lending is cheap could cause the economy to grow too quickly**. He has previously called the tax cuts unnecessary at a time when the economy is already growing at a steady pace, **which is likely to help increase inflation over time. If the economy grows too fast, he said the Fed will have to raise interest rates faster than expected. That could make borrowing money more expensive** -- the federal funds rate helps determine lending rates.

NA (Investopedia). "What happens if interest rates increase too quickly?" October 2015. https://www.investopedia.com/ask/answers/101615/what-happens-if-interest-rates-increase-too-quickly.asp
Looking for Balance Raising interest rates can slow down the economy, bringing inflation with it, while lowering interest rates can encourage spending. Lowering interest rates is a powerful form of economic stimulus, but it cannot be overdone. The goal is to keep inflation around 2% per year for personal consumption expenditures, but it requires a careful balance. Federal Reserve Chairwoman Janet Yellen has said that increasing interest rates too quickly carries more risks than leaving them at lower levels for too long. When Interest Rates Go Up When the U.S. Federal Reserve raises the federal funds rate, the cost of borrowing goes up too, and this increase starts a series of cascading effects. In essence, banks raise their interest rates for consumers and businesses, and it costs more to buy a home or finance a company. In turn, the economy slows down as people spend less. However, this also keeps the cost of goods stable and curtails inflation. It serves as a signal that economic growth in the United States is expected to be firm as well. Timing Is Everything It all comes down to timing. **The economy has to be robust enough to handle the increase in the cost of borrowing. If the Fed increases interest rates too quickly – before the economy is ready for it – the realized effect of the interest rate increase can be too much, and the measure could backfire. The economy would become strained and fall into a recession.** Moreover, the effect of interest rates going up would not be felt only in the U.S. If interest rates rise too quickly, the comparative value of the dollar could go up, affecting world markets as well as domestic companies with businesses in other countries.

David Goldman (CNN). 'Worst year for jobs since '45." January 9, 2009. http://money.cnn.com/2009/01/09/news/economy/jobs_december/
NEW YORK (CNNMoney.com) -- The hemorrhaging of American jobs accelerated at a record pace at the end of 2008, bringing the year's total job losses to 2.6 million or the highest level in more than six decades. A sobering U.S. Labor Department jobs report Friday showed the economy lost 524,000 jobs in December and 1.9 million in the year's final four months, after the credit crisis began in September. The unemployment rate rose to 7.2% last month from 6.7% in November - its highest rate since January 1993. The steep annual drop in jobs marked the highest yearly job-loss total since 1945, the year in which World War II ended. "We're seeing a complete unraveling of the labor market and are on track for getting beyond 10% unemployment," said Lawrence Mishel, president of the Economic Policy Institute. The total number of unemployed Americans rose by 632,000 to 11.1 million. November, in which 584,000 jobs were lost, and December marked the first time in the 70-year history of the report in which the economy lost more than 500,000 jobs in consecutive months.

Recessions

Mitchell of Case Western University, explained in **2014** that the capital gains tax deters short-term speculative investment by taxing short-term sales at a higher rate. Without a check on short-term investment flipping, speculation and asset bubbles form in the economy. **He writes** that ever-increasing sums of money are invested in derivative products promising substantial returns that are not supported by the actual underlying earnings. At this point, money that could be invested in the productive economy is diverted to the purely derivative economy – the speculation economy – where it continues to recirculate until the inevitable crash. Voting affirmative opens the gates for speculation without the check on short-term flipping, crating a hugely volatile market. **Dai of the University of Texas** quantified in 2007 that market volatility is 3.5 times higher empirically after capital gains tax cuts. The newly volatile market increases the chances of a severe recession, which last time **as the UN reports that** during the 2008 financial crash, which would presumably be of similar nature, resulted in 27 million jobs lost. This short-circuits any economic growth they discuss, because a recession reverses all ends of the economy.

Zhonglan Dai. "Capital Gains Taxes and Stock Return Volatility." University of Texas at Dallas. 2007.

In the presence of taxation, **the government, however, plays an important role in influencing the consumption smoothing and risk sharing among market participants. Capital gains taxes in particular have a large impact on consumption smoothing and risk sharing of investors participating in the financial markets and financial asset trading**. In the United States, capital gains taxes are levied upon selling an asset based on the appreciation or depreciation on the asset. Specifically, in the case of common stocks, if a stock has appreciated in value, the investor pays capital gains taxes on the appreciation upon selling. On the other hand, if the stock has depreciated in value upon selling, the 6 investor can use the realized losses to offset realized gains on other assets. If the realized losses exceed the realized gains, the losses can be used to reduce the taxable ordinary income up to a limit with the remaining losses carried forward to offset future gains and ordinary income. The tax treatment of the gains and losses on stocks thus offers a risk sharing mechanism between investors and the government. Consequently, the capital gains taxes will affect the consumption smoothing of stock market participants. To facilitate the development of our hypotheses on the relation between the capital gains taxes and stock return volatility, we focus on some extreme cases and then offer insights on general situations. We start with the effect of the capital gains taxes on the broad financial market and then discuss the cross-sectional implications of a change in the capital gains taxes on individual stock return volatility. Our discussions above suggest that the government serves as a partner in sharing the return of stock investments with the taxable investor partner in the presence of the capital gains taxes. Suppose the capital gains tax rate is close to 100 percent. The government "partner" thus gets almost all the 7 returns of investments made by taxable investors. Consequently, it bears almost all the risk while the risk borne by taxable investors is negligible. **On the other hand, suppose that the capital gains tax rate is 0. Then the taxable investor "partner" receives all the returns and bears all the risk. In reality, the capital gains tax rate is typically positive but below 100 percent. When the capital gains tax rate increases, the government "partner" receives a larger fraction of the return and bears more risk. The taxable investor "partner" receives a lower fraction of the return and bears less risk. When the capital gains tax rate is reduced, however, the government "partner" gets a smaller fraction of the return and bears less risk while the taxable investor "partner" receives a larger fraction of the return and bears more risk. Because capital gains taxes apply to all stocks, in the case of a capital gains tax cut, taxable investors will receive a larger fraction of returns on all stocks and bears more risk on all the stocks, leading to a more volatile consumption growth rates for these investors.** As a result, we have the following hypothesis on the relation between the capital gains taxes and the return volatility for the broad stock market We begin our discussion on the effect of a capital gains tax cut on stock return volatility by first examining the market excess return and the return on five industry portfolios including the consumer industry, the manufacturing industry, the high tech industry, the healthcare industry, and other industries. Table 2 reports the regression results of equation (3) on the volatility of the market excess return (column 3) and equation (4) on the return volatility of five industry portfolios (column 4 to column 8). Consistent with the prediction of our analysis, the volatility of the market excess return is higher after the capital gains tax rate is reduced. **Specifically, everything else the same, the monthly volatility of the market excess return is 3.5 percent higher after the capital gains tax cut than before the capital gains tax cut.** This finding is statistically significant at the 1 percent level. For our control variables, the lagged consumption-wealth ratio (CAY) has a significant positive effect on the market volatility. The lagged market excess return has a negative and significant effect on the return volatility. This is consistent with the leverage effect which states that return volatility is related to the level of returns. This negative relation also suggests that return volatility is higher when stock market performs poorly (asymmetric return volatility).

Lawrence Mitchell. Professor of Law at Case Western University. "Financial speculation: the good, the bad and the parasitic." The conversation. November 11 2014.

The word "speculation" carries a connotation of negativity. And it's probably fair to say that pretty much **every financial crisis since the tulip mania of the 1630s can be attributed to some sort of mass speculation. There is no question that speculation caused the financial crisis of 2008, first in housing, and then in derivative securities.** Recent reports on the multiple advantages enjoyed by high-speed traders again brings speculation to the fore and, with it, the question of whether it is good, bad or indifferent for the economy. Here are a few examples of that happening. Stock bubbles are speculative. It is unlikely the underlying corporations could earn anywhere near enough money to justify prices in any reasonable time frame. That makes them speculative. Stockholders, however, expect management to sustain or increase prices. **This puts pressure on managers to manage for the short-term, damaging the long-term prospects of the productive asset – the underlying corporation. When it becomes bad – when it becomes speculation – is when ever-increasing sums of money are invested in derivative products promising substantial returns that are not supported by the actual underlying earnings. At this point, money that could be invested in the productive economy is diverted to the purely derivative economy – the speculation economy – where it continues to recirculate until the inevitable crash.** There are a number of ways we can control speculation, or at least keep it within bounds that might diminish its harm. Perhaps first among these is tax reform, as I've outlined in my previous research on the topic. **Establishing a punitive capital gains tax regime**

for flipping an asset too quickly and something approaching tax relief for longer-term holdings, ideally on a sliding scale, would go a long way toward eliminating non-economic "investments."

Yue Shen. "Capital Gains Tax and Transaction Cost on Asset Bubbles." Queen's University. July 6 2015. http://econ.queensu.ca/students/phds/sheny/shen-bubblestaxes.pdf
In this paper we investigate the effects of capital gains tax and transaction cost on asset bubbles. We construct a model of asset bubbles by incorporating purchases into the framework of Abreu and Brunnermeier (2003) so that capital gains can be evaluated**. The capital gains tax helps deflate the bubble, but we find that the capital loss tax credit tends to offset this deflating effect. Under a perfect tax credit, the tax has no effect on the size of the bubble at all. Therefore dealing with bubbles with capital gains tax not only requires imposing the tax, but also tightening policies on tax credits**. Besides that the transaction cost and the return from the outside option help reduce the bubble, we also find that a low transaction cost or a small outside option has a very large marginal effect on the bubble. This implies that when a central bank further lowers interest rates when they are already very low, this policy change can have a dramatic inflating effect on bubbles. To show that our results can be empirically tested, we compare several historical bubbles in different countries. We normalize the size of a bubble by its associated belief dispersion so that we can examine the effects of other factors such as taxes and transaction costs. We also propose a method to infer the belief dispersion from the price path of an actual bubble in the absence of explicit data on the belief Our paper presents two main results. **The first is that the tax credit can offset the deflating effect of capital gains tax on bubbles and when the tax credit is perfect, the tax has no effect on bubbles at all. The capital gains tax can reduce bubbles in our model because, intuitively, it widens the relative payoff difference between fleeing and being caught.** This increased difference makes traders behave more cautiously by selling early to secure their gains. The lowered selling strategy then squeezes the stop-buy strategy downwards, which bursts the bubble early. The credit, on the other hand, serves as a compensation to a trader's loss such that the loss is also "taxed" and becomes smaller. It thus reduces the payoff difference and traders become less concerned about being caug**ht. They behave aggressively by selling at high prices, which in turn encourages buying at higher prices and the bubble is inflated. Under a perfect tax credit, this compensatory effect completely neutralizes the effect of the tax, even when we raise the tax to 100%! This result suggests that to deflate a bubble with capital gains tax, a tax authority should not only impose or raise the tax, but also examine its tax credit policies and refrain from granting overly favorable tax credits on capital losses.**

Ho-Chuan. Tamkang University. "The Growth of Volatility on Income Inequality." June 2012. https://faculty.unlv.edu/smiller/GROWTH_VOLATILITY_INCOME_INEQUALITY.pdf
Before discussing our primary findings, we examine whether a long-run relationship (dynamic stability) exists amongst inequality, volatility, and other covariates. As Loayza andRanciére (2006, p. 1059) point, it requires that a negative coefficient on the error-correction term (i.e., $\lambda_i = -(1 - \varphi_i)$) between 0 and -2 (i.e., λ_i lies within the unit circle). We strongly support this condition, as the (average) error-correction coefficients $\varnothing_i$ are both negative and significant at the 1-percent level, with or without the economic development variables. Therefore, a long-run equilibrium (cointegrated) relationship exists, implying meaningful long-run estimates. **Specifically, the estimated long-run effect of growth volatility (adg) on income inequality (top10) equals 0.1659 and 0.1450 in regressions (1) and (2), respectively. Both estimates are positive and statistically significant at the 1-percent level, indicating that larger growth volatility affects the distribution of income in an adverse way and produces higher income inequality, as predicted by many theories.** Note that a long-run, positive relationship between inequality and volatility sharply contrasts with the simple negative correlations reported in Table 1. Other things equal, a two-standard deviation increase in the top decile share of income (approximately 9.2604 percent) associates with an increase in the long-run growth rate of real per capita state income of 2.4059 percent, a quite large magnitude.

Trickle-down economics is B.S.

My opponents paint you this picture that if you give investors more money, they are going to make all these jobs and decrease income inequality. However, this doesn't match with reality. **The Congressional Research Service** found that capital gains tax cuts are by far the biggest contributor to growth in income inequality. While income grew 25 percent from 1996 to 2006 for all Americans, due to CGT cuts, income grew 74 percent for the top 1 percent and 96 percent for the top 0.1 percent. The rich just invest in stocks and make themselves more rich, not building up the bottom.

Travis Waldron (ThinkProgress). "Capital Gains Tax Cuts 'By Far' The Biggest Contributor To Growth In Income Inequality, Study Finds." February 13, 2013.
https://thinkprogress.org/capital-gains-tax-cuts-by-far-the-biggest-contributor-to-growth-in-income-inequality-study-finds-9f7e6b4a8058/
Changes in tax law that reduced the federal tax rate on capital gains income is "by far the largest contributor" 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: By far, the largest contributor to this increase was changes in income from capital gains and dividends. Changes in wages had an equalizing effect over this period as did changes in taxes. Most of the equalizing effect of taxes took place after the 1993 tax hike; most of the equalizing effect, however, was reversed after the 2001 and 2003 Bush-era tax cuts. […] The large increase in the contribution of capital gains and dividends to the Gini coefficient, however, is due to the large increase in the share of after-tax income from capital gains and dividends, and to the increase in the correlation of this income source with after-tax income. Hungerford's findings are similar to a 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. (HT: Greg Sargent)

Josh Barro (New York Times). "Rubio's Call for No Capital Gains Tax Is a Break With the G.O.P," February 4 2016.
https://www.nytimes.com/2016/02/04/upshot/rubios-call-for-no-capital-gains-tax-is-a-break-with-the-gop.html
When Steve **Forbes ran for president in 1996 on a plan that called for no taxes on dividends and capital gains, Mitt Romney, then a private citizen, took out a full-page ad in The Boston Globe attacking his proposal as plutocratic. "The Forbes tax isn't a flat tax at all — it's a tax cut for fat cats!"** Mr. Romney's ad declared, noting that "Kennedys, Rockefellers and Forbes" could end up with a tax rate of zero, while ordinary people would be left paying 17 percent on their wage and salary income under Mr. Forbes's plan. **The mainstream Republican position on capital gains has long been that they should be taxed at a low rate, but not zero.** In 1996, Mr. Romney was supporting Bob Dole, the eventual nominee, whose campaign platform called for a 14 percent tax rate on capital gains. In 2003, President George W. Bush signed a law setting the rate at 15 percent, a policy that John McCain proposed to continue if elected in 2008. (The current maximum rate on capital gains is 23.8 percent, after tax increases that took effect in 2013.) **When Mr. Romney was the Republican nominee in 2012, he proposed to abolish the capital gains tax for moderate earners** — who typically have few capital gains anyway — but not for the Kennedys, Rockefellers and Forbeses, who would have continued paying 15 percent. But the once-fringe idea of abolishing a capital-gains tax is going mainstream this year courtesy of Senator Marco Rubio. His tax plan breaks with past establishment Republican candidates for president in its extreme generosity to taxpayers who derive their income from investments rather than work. His plan would impose no tax at all on interest, dividends or capital gain income from stocks. It would also set a maximum tax rate of 25 percent on business income, both for large corporations and small ones. In many cases, that would mean business owners would pay a lower tax rate on profits than their employees would pay on their wages — even after counting both taxes paid by the business and those paid by the business owner directly.

Speculation

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.

Frontlines

Mergers and Acquisitions

R/T Small Businesses Become More Competitive

Small and medium enterprises only account for 20% of all M&As

Utz Weitzel. (Utrecht School of Economics). Theory and Evidence on Mergers and Acquisitions by Small and Medium Enterprises. 2009. file:///C:/Users/domin/Downloads/rebo_use_dp_2009_09-21.pdf

Firstly, we can clearly see that, as Moeller et al (2005) suggest, small M&As are overwhelmed in the average statistics by large M&A: 214 micro-enterprise M&As versus 13,387 large firm deals. **Despite this we see that SMEs account for about 20% of the total deals over the period**; with a high in 2000, when SMEs accounted for 30%, and a low in 1998 at a level of 15.9%. This are, we suggest, sizable numbers. Secondly, and looking at the industry level, we see that SME M&As are more often observed in services and manufacturing, and least often in transportation and utilities. As the latter are the most likely to be subject to minimum efficient scale considerations, this result is an intuitive one. Thirdly, we see that, in absolute terms, the lions share of the SME M&As is in the US (2581 versus 1169), but that relatively speaking, proportionally more SME M&As occurred in Europe. During the period January 1996 to December 2007, 28.9% of all Western European M&As were SME orientated, as opposed to 19.7% of all American M&As. Finally, we see that – in all three of our SME categories, and in comparison to larger firms too – private targets are much more common than public targets in our sample. This observation provides some suggestive evidence in favour of our third hypothesis.

Opportunity Zones

R/T Link: Investors won't Invest

1. Investors have a strong incentive to invest in these zones because it makes them a lot of money. The **Economic Innovation Group** finds in **2018** that an investor will see an additional $44 for every $100 of capital gains reinvested into an Opportunity Fund in 2018 compared to an equivalent investment in a more traditional stock portfolio generating the same annual appreciation

"Opportunity Zones: A New Incentive for Investing in Low-Income Communities" *Eig.org*. 1 Feb. 2018. Web. 17 Feb. 2018. <http://eig.org/wp-content/uploads/2018/02/Opportunity-Zones-Fact-Sheet.pdf>

The Opportunity Zones program is designed to incentivize patient capital investments in low-income communities nationwide. All of the underlying incentives relate to the tax treatment of capital gains, and all are tied to the longevity of an investor's stake in a qualified Opportunity Fund, providing the most upside to those who hold their investment for 10 years or more. The figure above and table below illustrate how an investor's available after-tax funds compare under different scenarios, assuming various holding periods, annual investment appreciation of 7%, and a long-term capital gains tax rate of 23.8% (federal capital gains tax of 20% and net investment income tax of 3.8%). For example, after 10 years **an investor will see an additional $44 for every $100 of capital gains reinvested into an Opportunity Fund in 2018 compared to an equivalent investment in a more traditional stock**

portfolio generating the same annual appreciation. Table 1 and the examples that follow provide additional information on the tax liabilities and differences in the after-tax annual rates of return.

R/T Impact: Gentrification Bad

Investors invest in opportunity funds, which is in turned used by the government to boost up these zones. They can't just buy up property all willy nilly.

"Trump promotes 'opportunity zones' for investors to rebuild in distressed communities" February 14, 2018.

https://www.washingtontimes.com/news/2018/feb/14/trump-promotes-opportunity-zones-investors-rebuild/

President Trump hosted a meeting of local leaders and investors at the White House Wednesday to call attention to a feature in his tax-cut law that encourages private investment in distressed communities. **The programs target "opportunity zones" in all 50 states where investors will qualify for lower capital-gains tax rates and the ability to pool their money in "opportunity funds" to spend on projects in blighted or under-served communities.** Sen. Tim Scott, South Carolina Republican who pushed the initiative, credited Mr. Trump's support with getting it included in the tax reform package. "Now we are sitting on opportunity, I think it's a goldmine," Mr. Scott said. "A goldmine for so many kids, and so many communities that thus far have not had the access to opportunities."

According to the St. Louis Federal Reserve Bank, gentrification increases the number of jobs going to local residents by 77% per year. This is important because employment allows individuals to escape poverty and is functionally a prerequisite to good quality of life.

Federal Research Bank of St. Louis. March 24, 2015, "Does Gentrification Increase Employment Opportunities in Low-Income Neighborhoods?" Rachel Meltzer, Pooya Ghorbani.

https://www.stlouisfed.org/~/media/Files/PDFs/Community%20Development/Econ%20Mobility/Sessions/MeltzerPaper508.pdf

This evidence is consistent with the expectation that incumbent businesses will either already have hired local residents or be more likely to have ties to the community and therefore hire locally. Businesses that close obviously also take with them jobs, and new businesses are either hiring fewer people more generally or looking elsewhere to fill positions. Table 4 displays the results from ZIP-level models and we see that, not surprisingly, the magnitudes on Gentrify are much larger. This makes sense, as the live-work market is defined as a larger area. The fully specified models, displayed in the fourth and eighth columns, show significant coefficients on Gentrify. **This indicates that for neighborhoods undergoing gentrification, the number of jobs going to local residents increases by between 52 and 77 per year, depending on the definition of "low-income." Based on the mean number of local jobs per ZIP, this amounts to between a 12.5 and 19 percent increase.**

Sharkey of the University of Chicago finds that gentrification increases the opportunities available to black youth and thus decreases the risk of intergenerational poverty.

John Buntin, January 14, 2015, "The Myth of Gentrification," Slate Magazine.

http://www.slate.com/articles/news_and_politics/politics/2015/01/the_gentrification_myth_it_s_rare_and_not_as_bad_for_the_poor_as_people.html

"The most plausible interpretation," the authors concluded, "may be the simplest: As neighborhoods gentrify, they also improve in many ways that may be as appreciated by their disadvantaged residents as by their more affluent ones." In 2010, University of Colorado–Boulder economist Terra McKinnish, along with Randall Walsh and Kirk White, examined gentrification across the nation as a whole over the course of the 1990s. McKinnish and her colleagues found that gentrification created neighborhoods that were attractive to minority households, particularly households with children or elderly homeowners. **They found no evidence of displacement or harm. While most of the income gains in these neighborhoods went to white college graduates under the age of 40 (the archetypical gentrifiers), black high school graduates also saw their incomes rise. They also were more likely to stay put. In short, black households with high school degrees seemed to benefit from gentrification.** McKinnish, White, and Walsh aren't the only researchers whose work suggests that blacks often benefit from gentrification. In his book, Stuck in Place: Urban

Neighborhoods and the End of Progress Toward Racial Equality, sociologist Patrick Sharkey took a close look at black neighborhoods that saw significant changes to their ethnic composition between 1970 and 1990. He found that when the composition of black neighborhoods changed, it wasn't because whites moved in. That rarely happens. For black communities, neighborhood change happens when Latinos begin to arrive. Sometimes these changes can be difficult, resulting as they often do in new political leaders and changes to the character of the communities. But **Sharkey's research suggests they also bring real benefits. Black residents, particularly black youth, living in more diverse neighborhoods find significantly better jobs than peers with the same skill sets who live in less diverse neighborhoods. In short, writes Sharkey, "There is strong evidence that when neighborhood disadvantage declines, the economic fortunes of black youth improve, and improve rather substantially."**

Studies Show that forced displacement is rarely harmful. The displaced did not live in worse situations, and even showed increased levels of satisfaction (Sheppard - Williams College)

Stephen Shepard, Professor of Economics Williams College, 2,13,18, http://web.williams.edu/Economics/ArtsEcon/library/pdfs/WhyIsGentrificationAProbREFORM.pdf (NK)

Recent history presents a variety of perspectives about who constitutes the "gentrifiers" and the "displaced". In 1983, for example1 , a proposal by then New York City mayor Ed Koch to build 117 apartments for artists in the lower east side of Manhattan was defeated after an acrimonious hearing by the city Board of Estimate. One opponent called the proposal "a scam … that would gentrify a neighborhood with the young, the white and the rich." A supporter, a gallery owner in SoHo, defended the plan to use federal housing funds to build the units saying that "… artists, by their nature, are an integrated race of people." Almost three decades later, artists living in the area have been mostly pushed out of the neighborhood, and complain about being displaced by gentrification. **Much of the research that has been done concerning gentrification has focused on whether gentrification imposes particular harm on poor households, and whether these households are displaced into worse housing situations**. Thus **Schill and Nathan** (1983) **conducted surveys** of 1 See Carroll (1983) **[of] displaced residents from gentrifying neighborhoods in five different cities. They found that displaced residents did not live in worse conditions following their moves. The majority of the displaced reported increased levels of satisfaction with their home and neighborhood and commute times were more likely to decrease after the move. Subsequent careful research has continued to find only limited evidence that the displaced poor are disadvantaged relative to their previous housing arrangements**, although this may depend on the particular urban context. Atkinson (2000) found substantial displacement occurring in London, with most of the displacement among those employed in unskilled or semi-skilled occupations. In the US context, however, Freeman and Braconi (2004) presented data that suggested the poor are not differentially likely to be displaced, and Vigdor (2002) examined Boston data that suggested that **while some displacement does take place the poor are not clearly harmed by the displacement.** In this paper we argue that by focusing on the individuals who are displaced from the neighborhoods by gentrification and sometimes only on the displaced poor, analysts have been considering the wrong problem and looking for harm in the wrong places. We argue that gentrification is more interestingly considered as a problem for the neighborhoods and communities that are potentially subject to gentrification, rather than the individual poor households that reside in or might move away from those areas.

R/T Pricing out the poor

Historically not true

Matias Busso, Jesse Gregory, and Patrick Kline (American Economic Review). "Assessing the Incidence and Efficiency of a Prominent Place Based Policy." 2013. https://www.ssc.wisc.edu/~jmgregory/EZ_AER.pdf

This paper empirically assesses the incidence and efficiency of Round I of the federal urban Empowerment Zone (EZ) program using confidential microdata from the Decennial Census and the Longitudinal Business Database. Using rejected and future applicants to the EZ program as controls, **we find that EZ designation substantially increased employment in zone neighborhoods and generated wage increases for local workers without corresponding increases in population or the local cost of living.** The results suggest the efficiency costs of first Round EZs were relatively modest.

People in gentrified communities are 15% less likely to move than those in non-gentrifying neighborhoods

Richard Florida (Citylab). "The Complicated Link Between Gentrification and Displacement." September 8, 2015.
https://www.citylab.com/equity/2015/09/the-complicated-link-between-gentrification-and-displacement/404161/

Perhaps the foremost student of gentrification and displacement is Lance Freeman of Columbia University. His 2004 study with Frank Braconi found that **poor households in gentrifying neighborhoods of New York City were less likely to move than poor households in non-gentrifying neighborhoods. This of course may have to do with the fact that there are less poor households in gentrifying neighborhoods to begin with. Still, the authors concluded that "a neighborhood could go from a 30% poverty population to 12% in as few as 10 years without any displacement whatsoever."** In a subsequent 2005 study, Freeman found that the probability that a household would be displaced in a gentrifying neighborhood was a mere 1.3 percent. A follow-up 2007 study, again with Braconi, examined apartment turnover in New York City neighborhoods and found that the probability of displacement declined as the rate of rent inflation increased in a neighborhood. **Disadvantaged households in gentrifying neighborhoods were actually 15 percent less likely to move than those in non-gentrifying households.** And, in a 2009 study, Freeman found that gentrifying neighborhoods are becoming more racially diverse by tracking neighborhood change from 1970-2000 (although he does note that cities overall are becoming more diverse as well). Freeman also discovered that changes in educational diversity were the same for both gentrifying and non-gentrifying areas. Ultimately, while some residents were displaced from 1970-2000, gentrifying neighborhoods were generally more diverse when it came to income, race, and education as opposed to non-gentrifying neighborhoods.

In reality, low income residents of gentrifying neighborhoods move out of the area less frequently than low income residents living in non gentrified areas.

Lance Freeman of Columbia University. February 2002, "Urban Prospect: Gentrification and Displacement."
http://chpcny.org/wp-content/uploads/2011/02/UP_Gentrification_Displacement1.pdf

The growth of an affluent professional class in a number of the nation's cities during recent decades has been perceived as a mixed blessing by many social scientists, policymakers, and community activists. Most recognize **the beneficial effects, which include renewed housing investment, improved retail services and a revived tax base**. Some even hope that the gentrification of urban neighborhoods can be managed to promote greater racial and economic integration than currently exists. But there is also a backdrop of suspicion: some see gentrification as a new type of "land grab" that will work to the disadvantage of the poor and the powerless.

Our research sheds new light on the gentrification process. Although it does not prove that secondary displacement of the poor does not occur in gentrifying areas, it suggests that demographic transition is not predicated on displacement. Low-income households actually seem less likely to move from gentrifying neighborhoods than from other communities. [and] improving housing and neighborhood conditions appear to **encourage the housing stability of low-income households** to the degree that they more than offset any dislocation resulting from rising rents.

Using logit regression, a type of statistical analysis that allows a researcher to evaluate the probability of an event occurring, we analyzed renter mobility. **When compared to poor households not residing in** one of the seven **gentrifying neighborhoods** identified above**, poor households residing in those neighborhoods were found to be 24 percent less likely to have moved** during the 1991-1999 period. When we use the lack of a four-year degree as our measure of disadvantage, this relationship is still evident. Households without a college degree were 15 percent less likely to have moved if they lived in a gentrifying neighborhood. Based on this analysis it appears that gentrification actually suppresses, rather than raises, the probability that a disadvantaged household will move out of its apartment.

No effect on displacement because people would rather live in gentrified communities

Barry Plunkett "IMPACTS OF GENTRIFICATION: A POLICY PRIMER" University of Pennsylvania November 21, 2016.
https://publicpolicy.wharton.upenn.edu/live/news/1581-impacts-of-gentrification-a-policy-primer/for-students/blog/news.php

As wealthier people move into a previously poor neighborhood, the median area income increases. This increases cash flows for local businesses and makes local business investment more desirable. Over a period of time, more businesses are built, new jobs are created, and wages increase. For example, in Milwaukee, WI, the city was becoming increasingly segregated and abandoned as wealthy residents and jobs left to the suburbs post industrial age. In the early 2000's, new bars, restaurants, and waterfronts renewed the area through a revitalized nightlife and reversed the downward spiral of the city. Some have noted that the benefits of gentrification extend beyond the private sector. **Gentrification provides a fiscal windfall for the city government. More affluent residents contribute more income tax to city coffers, and appreciating home values beget higher property taxes. These**

increased tax revenues allow the local government to increase investment in infrastructure, public transportation, public schools, law enforcement, and other citizen services. In Milwaukee, for instance, gentrification provided the revenue required to fund a mass transit project that contributed to urban revival.

Even if gentrification leads to displacement, low income individuals can find housing in the surrounding areas. This is really beneficial because Hurst of the University of Chicago finds that:

Erik Hurst of the University of Chicago. February 2012, "Within-city Variation in Urban Decline: The Case of Detroit." https://pdfs.semanticscholar.org/2146/a0604929c8d0f63a86ae8706e1127937a95c.pdf

The results from estimating (21) are shown in Table 7. In response to a city-wide housing demand shock, it is the poor census tracts that are in close proximity to the rich census tracts that are much more likely to experience rising incomes, declines in the poverty rate, and rising educational attainment of residents relative to poor census tracts that are farther from the rich census tracts. Specifically, in response to a one-standard deviation instrumented income shock, poor census tracts that were 1 mile from rich neighborhoods experienced income growth that was 1.7 percentage points higher than poor neighborhoods that were 4 miles away. Given that the average census tract in our sample experienced income growth of 14.9 percent during the decade, this represents an increase in income of 11 percent for poor neighborhoods that are close to rich neighborhoods in response to a one standard deviation instrumented income shock. Likewise, **poor neighborhoods that are 1 mile from** **the** **rich neighborhoods experienced 23 percent lower increases in the poverty rate and 25 percent higher increases in the fraction of residents with a college degree** or more relative to otherwise similar poor neighborhoods that are 4 miles from the rich neighborhoods.

Mergers and Acquisitions

R/T Antitrust Law Solves

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."

Rana Foroohar (Time Magazine). "Businesses Will Continue to Merge and Purge in 2016." March 1, 2016. http://time.com/4242628/mergers-acquisition-wall-street-layoffs/

Still, the merge and purge cycle will likely continue. The lack of real consumer demand means that firms are totally unwilling to go out on a limb and make big new capital investments. Indeed, the area of the economy where they had been making the most investment, the oil and gas sector, will likely see plenty of consolidation this year, as firms hit by the oil price fall partner up to avoid bankruptcy. **Don't look to the government to prevent the big getting bigger. Since the early 1980s, when antitrust regulation was loosened under Reagan, the Department of Justice and the Federal Trade Commission have judged mergers based on whether they would bring down prices and improve services for consumers. If the**

answer was even remotely yes, then the merger—no matter how big—was likely to go through. But voices on all sides of the antitrust debate are beginning to question whether that rationale is actually still working. Nobody would argue that the mega mergers that have taken place over the past thirty years in pharmaceuticals, for example, have brought down drug prices. Or that the tie-ups between big airlines have made flying more enjoyable. Or that conglomerate banks have made our financial system more robust (efficiency has gone down and fees up in the financial industry as banking has become more concentrated).

R/T AFF

R/T Increase Investment

1- Delink: The Institute on Tax Policy finds that the wealthiest 0.1% accounted for 60% of capital gains income. Insofar as this is true, my opponents argument relies on the wealthiest reinvesting their money. However, **Egan of CNN reports in late December** that in a survey of CEO's only 14% said their companies plan to make large, immediate capital investments in the United States if the tax cuts pass. For this reason Egan concludes that this growth from tax cuts "a lot of smoke and mirrors," since companies already have plenty of cash to make the types of investments my opponents are talking about.

2- Delink: Pressman of the Conversation reports in 2017 that when business heads were asked how they would spend gains from tax cuts they said that they would pay back debt, repurchase shares or invest in mergers and acquisitions all reinvesting. For these reasons he concludes that the gains from a corporate tax cut will remain with the owners of the business.

Stone of Reuters explains in 2017 that the money from tax cuts have historically gone mostly to stock buybacks and dividends (a sum of money paid regularly by a company to its shareholders) and CEO's say that they will do this again if they receive tax cuts. For this reason tax cuts historically produced no appreciable increase in U.S. jobs or domestic investment.

3- Delink: The Center for Budget and Policy Priorities finds that this is empirically false. Capital gains tax cuts at both a national level in 2003 and state level in Kansas had little impact on investment or employment. Rather than growing the economy for all 70 percent of the benefit ultimately flowed to the top fifth of households.

4- TURN: Abolishing the CGT and promoting the use of "tax havens" diverts investment away from where it would be most productive. **Marr of the Center on Budget and Policy Priorities** explains that CGT cuts skew investment decisions by encouraging taxpayers to invest in assets that deliver capital gains, even if those assets are less productive than others on a pre-tax basis and would therefore not have attracted investment but for the tax break.

Burman of Syracuse University warrants in 2017 that abolishing the capital gains tax creates a huge incentive to make bad choices. People see investing in capital assets to get out of paying taxes which distorts their investment choices, so they make bad and poorly informed investment choices.

5- Turn: abolishing the capital gains tax creates economic drag. **Gale of Brookings explains in 2014**, tax cuts will increase the deficit, which means the Fed will have to raise interest rates. When interest rates are high it creates lower national savings and fiscal drag on the economy's ability to grow.

6. 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.

Matt Egan (CNN). "Will companies spend tax savings to create jobs?" December 19, 2017.
http://money.cnn.com/2017/12/19/investing/tax-plan-jobs-trump-ceo-yale-survey/index.html
CEOs may like the idea of a big tax cut for businesses, but that doesn't mean they'll use the savings to create American jobs. Just 14% of CEOs surveyed by Yale University said their companies plan to make large, immediate capital investments in the United States if the tax overhaul passes. Capital investments, like building plants and upgrading equipment, can lead to hiring. Only a slim majority of the CEOs, 55%, said the Republican tax package should be signed into law. The Yale CEO Summit surveyed 110 prominent business leaders of Fortune 500 and Fortune 50 companies last week. The findings, along with other surveys, suggest that the tax plan may not have the dramatic impact on jobs that President Trump and Republicans in Congress have promised. Trump tweeted over the weekend that "TAX CUTS" will lead to "higher growth, higher wages, and more JOBS!" The GOP tax overhaul would slash the corporate tax rate from 35% to 21% and offer incentives for companies to bring foreign profits back home. Jeffrey Sonnenfeld, who leads the Yale CEO Summit, said in an interview that it's "astounding" how few companies plan to reinvest their tax savings. **He called the idea of a jobs boom from the tax plan "a lot of smoke and mirrors," especially because the unemployment rate is just 4.1% and companies already have plenty of cash to make investments.** Sonnenfeld declined to name the CEOs who participated in the poll. He said it included "Trump supporters" and former members of the president's now-defunct advisory councils of business leaders.

NA (Institute on Taxation and Economic Policy). "The Folly of State Capital Gains Tax Cuts." September 2011.
https://itep.org/wp-content/uploads/pb13capg.pdf
Advocates of capital gains tax cuts frequently point out that a growing number of middle-class Americans now own stock. Yet **only 7 percent of Americans reported net capital gains income on their federal tax returns in 2008 —and the http://worldbookonline.com/student/article?id=ar754849&st=emperor+constantine#tab=homepage\vast majority of these gains were realized by the very wealthiest Americans.** In particular: • **Taxpayers with federal adjusted gross incomes (AGI) in excess of $500,000 reported close to 80 percent of taxable capital gains, even though they accounted for less than one percent of all returns filed.** • **The very wealthiest 0.1 percent of Americans**—taxpayers with AGI over $2 million—**received more than 60 percent of all capital gains income.** • **The poorest two-thirds of the population**—taxpayers with AGI of $50,000 or below— **collectively received just under 6 percent of all capital gains income. In fact, capital gains are among the most unequally distributed sources of personal income.** One obvious consequence of this concentration of capital gains income is that any "across the board" **capital gains tax cut will dramatically reduce the share of all income taxes paid by the very wealthiest taxpayers—and will increase the share of taxes paid by lower and middle-income taxpayers.**

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/
Why workers won't gain There are two ways a corporate income tax cut can trickle down to workers' pockets: directly through higher wages or indirectly via lower prices at stores selling the things they buy. Mnuchin contends that workers currently bear 70 percent of the corporate tax burden — or get stuck with 70 percent of the corporate tax hot potato. So, a tax cut would mean that companies pass much of their tax benefits to their employees by paying them more or by cutting prices and increasing the buying power of current workers. 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.

Mike Stone (Reuters). "CEOs suggest Trump tax cut may lift investors more than jobs." October 26, 2017.
https://www.reuters.com/article/us-usa-tax-companies/ceos-suggest-trump-tax-cut-may-lift-investors-more-than-jobs-idUSKBN1CV38Q
But some of the biggest S&P 500 companies have plans more pleasing to investors than workers. The chief executive of Honeywell International Inc (HON.N), Darius Adamczyk, said tax reform will "offer greater flexibility for Honeywell," adding that the industrial conglomerate would invest more cash in the United States to pay for dividends, mergers and acquisitions, share buybacks and paying down debt. Amgen Inc (AMGN.O) CEO Robert Bradway said on Wednesday any tax reform would be incorporated into its capital allocation plans, noting the drugmaker expects to continue to raise its dividend and buy back shares. The situation could be a replay of the massive 2004 repatriation "holiday" under President George W. Bush, in which 843 U.S.-based multinationals brought back $362 billion in overseas profits at a deeply slashed tax rate of 5.25 percent. **Most of that money went to stock buybacks and dividend increases. The tax break was called a costly failure in a 2011 report by the Senate Permanent Subcommittee on Investigations, which found it cost the U.S. Treasury $3.3 billion in lost revenue and "produced no appreciable increase in U.S. jobs or domestic investment."** Unlike the voluntary Bush program, Trump's proposal calls for mandatory repatriation of an estimated $2.6 trillion in profits stashed offshore. It would impose two different rates: 3.5 percent on earnings invested in illiquid assets and 8.75 percent on cash and liquid assets. But the outcome would likely be similar to the Bush experience, said Goldman Sachs in a research note on Thursday.

NA (Center for Budget and Policy Priorities). "Large Job Growth Unlikely to Follow Tax Cuts for the Rich and Corporations." October 10, 2017.
https://www.cbpp.org/research/federal-tax/large-job-growth-unlikely-to-follow-tax-cuts-for-the-rich-and-corporations
The tax framework that the Trump Administration and congressional Republican leaders announced on September 27 includes massive tax cuts that overwhelmingly benefit high-income and high-wealth individuals. Proponents claim they will create jobs and boost economic growth; for example, Treasury Secretary Steven Mnuchin claims that that the framework would help the economy "get back to sustained 3 percent GDP or higher, which adds literally millions and millions of jobs." In reality, tax cuts for high-income people and corporations won't likely lead to substantial job growth and could even cost jobs.1 Job growth was much weaker following the George W. Bush tax cuts, which gave the biggest boosts to high-income households, than after the tax increases on high-income households under Presidents Clinton and Obama. (See chart.) **When Kansas enacted large tax cuts overwhelmingly for the wealthy, Gov. Sam Brownback claimed the tax cuts would act "like a shot of adrenaline into the heart of the Kansas economy." But Kansas' job growth, growth in small business formation, and economic growth have lagged behind the country as a whole.** These facts don't prove that tax cuts are bad for jobs or that tax increases lead to job growth; many other factors affect the economy and job creation. But they dispel claims that large tax cuts are a silver bullet for job creation and will create "millions and millions of jobs." Research Doesn't Find Relationship Between High-Income Tax Cuts and Job Growth Careful empirical research finds that, contrary to overstated "supply side" predictions, tax cuts on high-income people's earnings or income from wealth (such as capital gains and dividends) don't lead to substantial job growth. **Tax cuts on capital gains and dividends flow overwhelmingly to the wealthiest filers but do little to boost saving and investment. For example, a recent study found "empirical evidence that the 2003 tax cuts [which lowered the rates on capital gains on dividends] had little impact on investment or employment."** A study of the effects of federal and state tax changes found that tax cuts for the top 10 percent of households don't have statistically significant effects on state employment growth. It also found that state employment levels, economic activity, and net earnings are "unresponsive to tax changes for the top 10 percent." High earners are unlikely to increase their work hours due to cuts in their tax rates, research shows. "Overall, evidence suggests [high-income Americans'] labor supply is insensitive to tax rates," Tax Policy Center (TPC) co-founder Leonard Burman notes. Tax Cuts for Corporations Are Poor Path to Job Creation — and Could Hurt It Most corporate rate cuts go to high-income investors and don't "trickle down" to workers. Contrary to claims that workers will benefit as companies invest more and thereby boost jobs or wages, mainstream estimates are that only a very small share of corporate rate cuts eventually flows to workers. And, even taking this effect into account, **TPC finds that about 70 percent of the benefit of a corporate rate cut ultimately flows to the top fifth of households, and more than a third flows to the top 1 percent.** Some types of corporate tax cuts risk hurting jobs. Under the GOP framework, for example, foreign profits of U.S.-based multinational corporations would face a tax rate of zero (due to adoption of a "territorial" tax system) while U.S. profits would face a rate of 20 percent. This massive, permanent tax advantage for foreign over domestic profits would encourage corporations to shift investments overseas, threatening U.S. jobs and wages. Top-Tilted Tax Cuts Don't Boost Small Businesses or Entrepreneurship Proponents of high-income tax cuts often argue that small businesses create most new jobs and face unfairly high tax rates if organized as "pass-through" businesses such as partnerships, S corporations, and sole proprietorships.

Josh Barro, "Rubio's Call for No Capital Gains Tax Is a Break With the G.O.P.", NYT, 02/04/16, DA: 01/25/18, https://www.nytimes.com/2016/02/04/upshot/rubios-call-for-no-capital-gains-tax-is-a-break-with-the-gop.html //ME

Unfortunately, recent experience with capital tax cuts has not been supportive of the idea that they will do much to lift economic growth. "There seems to have been virtually no impact of the 2001 or 2003 tax cuts on capital," said William Gale, co-director at the Urban-Brookings Tax Policy Center and a former staff member at the Council of Economic Advisers under George H.W. Bush. He pointed to a 2015 paper from the University of California, Berkeley, economist Danny Yagan, finding that the 2003 cut in dividend taxes "**caused zero change in corporate investment and employee compensation**." The problem with proposing a zero tax rate on capital gains and dividends, rather than just a low one, is that it can rely only on the third, least-certain justification. A zero rate will more than offset the double taxation of corporate income, and is certainly well below the revenue-maximizing rate. But it's a big tax cut for people who are already doing well, and can be a good idea only if you really believe it will do a lot for economic growth.

Chye-Ching Huang and Chuck Marr (Center on Budget and Policy Priorities). "RAISING TODAY'S LOW CAPITAL GAINS TAX RATES COULD PROMOTE ECONOMIC EFFICIENCY AND FAIRNESS, WHILE HELPING REDUCE DEFICITS." September 19, 2012. https://www.cbpp.org/sites/default/files/atoms/files/9-19-12tax.pdf

The tax breaks for capital gains are inefficient, for two reasons. First, **they skew investment decisions by encouraging taxpayers to invest in assets that deliver capital gains, even if those assets are less productive than others on a pre-tax basis and would therefore not have attracted investment but for the tax break. They thereby divert investment away from where it would be most productive.** Second, they create a large incentive for taxpayers to reclassify ordinary income as capital gains for tax purposes. Congress has exacerbated the problem by enacting provisions that allow high-income taxpayers to take even greater advantage of the preferential treatment of capital gains. For example: The "carried interest" tax break allows hedge fund managers to treat compensation for their services not as salary taxed at ordinary income tax rates but as a capital gain. (See box.) The Joint Committee on Taxation (JCT) estimates that eliminating this preference would save roughly $17 billion in revenues over 2012-2022.12 The "blended rate" tax break allows a portion of capital gains from the buying and selling of some types of derivative contracts (a type of financial instrument) to be taxed at the long-term

Leonard Burman is Institute Fellow at the Urban Institute, the Paul Volcker Professor and a Professor of Public Administration and International Affairs at the Maxwell School of Syracuse University, and senior research associate at Syracuse University's Center for Policy Research. He co-founded the Tax Policy Center, a joint project of the Urban Institute and the Brookings Institution, in 2002. He was Deputy Assistant Secretary for Tax Analysis at the Treasury from 1998 to 2000 and Senior Analyst at the Congressional Budget Office from 1988 to 1997. He is past-president of the National Tax Association. "TaxVox: Individual Taxes", Tax Policy Center- Brookings And Urban Institute, 03/03/15, DA: 01/28/18, http://www.taxpolicycenter.org/taxvox/cutting-capital-gains-taxes-dead-end-not-step-road-consumption-tax //ME

Lowering tax rates on capital gains alone (1) distort work and investment decisions into activities that produce income taxed as capital gain instead of ordinary income, and (2) create a giant loophole that can be exploited via tax shelters. Cutting capital gains taxes **creates a huge incentive to make bad choices**. The top effective federal income tax rate on ordinary income (e.g., wages, salaries, rents, royalties, interest income) is over 40 percent. The effective tax rate on capital gains is less than 25 percent. Thus, every million dollars that is shifted from ordinary income to capital gains tax saves more than $150,000 in tax. (The tax savings would top $400,000 if capital gains were exempt from tax.) Unsurprisingly, this gives people an artificial incentive to favor capital gains over rents and interest so it distorts their investment choices. In addition, they can turn labor income into capital gains—as private equity partners and hedge fund managers do—providing themselves a huge boost in after-tax income, even if their talents are better suited to another line of work. The other problem is that the low tax rate on capital gains is the lynchpin of almost all individual income tax shelters. The classic tax shelter creates current deductions, which reduce taxable income, and ultimately generates capital gains. Tax shelter investments generate pre-tax losses that turn into after-tax profits because of the tax benefits. As Columbia law professor Michael Graetz has said, "A tax shelter is a deal done by very smart people that, absent tax considerations, would be very stupid." The capital gains tax break encourages a lot of "stupid" and unproductive activity, and a huge amount of very talented human capital is wasted in the pursuit. This was the crux of my recent debate with Scott Sumner in the Wall Street Journal. He thinks discouraging saving and investment entails big economic costs and is concerned that inflation causes real capital gains to be overstated. He says that policymakers can pass specific legislation to discourage tax shelters while keeping a preference for capital gains. I think the effects of taxing capital gains on overall capital formation and growth are small because saving is largely insensitive to rates of return. Besides, most investment capital comes from sources not affected by the U.S. capital gains tax. It is true that inflation is a problem, but more so for interest, dividends, rents, and royalties that are taxed every year, than for capital gains that can be postponed for years or even decades. That deferral offsets part of the costs of inflation—and more the longer the asset is held.

William G. Gale, The Brookings Institution and Tax Policy Center, Andrew A. Samwick, Dartmouth College and National Bureau of Economic Research, "Effects of Income Tax Changes on Economic Growth", Brookings Institute, September 2014, DA: 01/25/18, https://www.brookings.edu/wp-content/uploads/2016/06/09_Effects_Income_Tax_Changes_Economic_Growth_Gale_Samwick.pdf //ME

However, **any tax cut must be financed by some combination of future spending cuts or future tax increases—with borrowing to bridge the timing of spending and receipts**. The associated, necessary policy changes may not be specified in the original tax cut legislation, but **they have to be present in some form in order to meet the government's budget constraint**. **Because fiscally unsustainable policies cannot be maintained forever, the financing of a tax cut must be incorporated into analyses of the effect of the tax cut itself**. **In the absence of**

spending changes, tax cuts are likely to raise the federal budget deficit.3 **The increase in federal borrowing will likely reduce national saving, and hence the capital stock owned by Americans and future national income**. In most economic environments, **the increase in the deficit is also likely to raise interest rates**. **These changes – lower national saving and the associated increase in interest rates – create a fiscal drag on the economy's ability to grow** (Congressional Budget Office 2013; Economic Report of the President 2003; Gale and Orszag 2004a; Engen and Hubbard 2004; Laubach 2009).

Clare Wang. "Can Raising the Capital Gains Tax Rate Ever Attract Investors?" Kellogg Insight. May 5 2016.
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. T**his 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. And while firm owners and executives have no direct control over tax rates, Wang believes that reframing their understanding of tax capitalization —from a black-and-white issue to one with shades of gray—has real value. "**Due to the risk sharing by the government, a firm with high systematic risk may become more attractive to investors when capital gains taxes increase**," she says.

Luzi Hall. Stephanie Sikes. Clare Wang. "Cross-Country Evidence on the Relation between Capital Gains taxes, risk, and expected returns." Wharton school of University of Pennsylvania. November 2015.
Overall, the results in Table 3 support our hypotheses. In terms of economic magnitude, the coefficients on CGRATE suggest that **a one percentage point increase in the capital gains tax rate leads to a 0.76 percentage point increase in RET for the benchmark firms (based on column 8).** For firms with high systematic risk, a one percentage point increase in the capital gains tax rate results in only a 0.33 percentage point increase in RET. The same change in countries with a high market risk premium or low risk-free rate results in a 0.22 percentage point increase and a 0.01 percentage point decrease in RET, respectively. These numbers and differences are clearly economically meaningful, but have to be interpreted with caution. Changes to the capital gains tax rate may, at times, occur in conjunction with other, more extensive adjustments to a country's tax system or institutional environment, while changes in the risk parameters typically are more gradual in nature and do not occur in a discrete manner. We next assess the sensitivity of the above results (see also Appendix 2).

R/T CGT Increases the Cost of Investment

Don't read if you're reading guided investments on neg

1. Delink: Burman of Brookings writes in 2001 that much of the investment in the US are financed with pension funds, non-profits, and foreigners, who don't pay capital gains taxes in the first place. Abolishing the tax won't make that much of a difference.

2. Delink: Hungerford of the Congressional Research Service quantities that 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.

3. Delink: The capital gains tax doesn't mean investors don't profit. Because they are still on net making money, **Thornton of the Center of American Progress** finds that even in the largest capital gains tax cuts in 2003 led to zero change in corporate investment into the economy.

Leonard E. Burman And William G. Gale. "The Case Against the Capital Gains Tax Cuts." *Brookings*. 30 Nov. 2001. Web. 2 Feb. 2018. <https://www.brookings.edu/opinions/the-case-against-the-capital-gains-tax-cuts/>
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.

Thomas Hungerford "The Economic Effects of Capital Gains Taxation" *Fas.org*. 18 Jun 2010. Web. 2 Feb. 2018. <https://fas.org/sgp/crs/misc/R40411.pdf>
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.

Alexandra Thornton And Harry Stein. "Who Wins and Who Loses?" *Center for American Progress*. 22 Oct. 2015. Web. 13 Feb. 2018. <https://www.americanprogress.org/issues/economy/reports/2015/10/22/123815/who-wins-and-who-loses/>
A study by Danny Yagan of **one of the largest reductions to a capital tax rate**—the 2003 dividend tax cut—**showed zero change in corporate investment** and no effect on employee compensation. As with top tax rates generally, changes in capital gains tax rates are not correlated with a corresponding shift in economic growth. Not only does the tax code provide reduced rates of tax on capital gains and dividends, it offers a number of other tax breaks for capital income. For example, under a special provision of the tax code known as stepped-up basis, individuals who hold onto assets until they die never have to pay income tax on the gain in value of those assets—a tax break that also benefits their lucky heirs who take ownership of the assets free of income tax. When the heir sells the asset, capital gains taxes are only due on the gain that occurred after they inherited the asset: The gain that occurred during the previous owner's lifetime is never subject to income taxes. Because of these and other tax breaks, **capital income tax breaks lead to faster and greater accumulation of wealth for those lucky few who have significant capital income than for the majority of Americans who earn their income via wages and have precious few dollars to save or invest**.

R/T Venture Capital

1. Mitigate: Entis of New York University finds in 2013 that only 0.05% of startups are funded by venture capital firms. Affirming doesn't affect a whole lot.

2. Delink: Feder 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. Delink: Burman of the Brookings Institute 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 affected by tax cuts.

4. Delink: Impact mitigation: McDermott 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.

5. TURN: Watzinger of the University of Munich finds in 2017 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 likelihood of a startup that gets funding being successful.

6. TURN: Capital gains tax increases risk-taking. **Wang of Northwestern explains** that a 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.

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 lions 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.

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
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.**

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 Street Journal 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, 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.

Martin Watzinger (University of Munich) 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion_paper/30.pdf, DOA: 1-14-2018] // ATA
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**

Martin Watzinger (University of Munich) 4-26-2017, ["," https://rationality-and-competition.de/wp-content/uploads/discussion_paper/30.pdf, DOA: 1-14-2018] // ATA
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.**

Luzi Hall, Stephanie Silkes, and Clare Wang, 05-05-2016, "Can Raising the Capital Gains Tax Ever Attract Investors?" Kellogg School of Management at Northwestern University
https://insight.kellogg.northwestern.edu/article/can-raising-the-capital-gains-tax-rate-ever-attract-investors
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. EK

R/T Lock-In Effect

1. Delink: ASU's Brett Romero explained in 2016 that lock in is an irrational reaction as holding onto assets does not avoid tax, it only delays it. Asset holders access a lower rate of tax after holding it for a year so they are strongly incentivized to realize after a year. The scope of their impact is one year at best, but is offset by gains afterward. This is backed by history as **McClelland of the Tax Policy Institute**

explained in 2017 that in an empirical 10% decline in tax rates, it only delays realization for 2.2% of gains at best but barely correlates to realizations at all.

2. Delink: the lock-in effect doesn't exist most of the time. **Kanemoto from the University of Tokyo explains in 2010** that the lock-in effect arises only when unexpected capital gains exist. Most investors have a good idea of the general trend of the stock, and will not hold on to dying investments.

3. TURN: Lock-in effect can be beneficial as it prevents market break down. Right now the **IRS** explains that long-term capital gains are taxed at a substantially reduced rate as a means of encouraging individuals and businesses to keep their investments. The difference between the long-term capital gains rate and the short-term gains rate can be as much as 20%. For this reason, when you remove the capital gains tax there is no longer an disincentive to conduct short term trades. This leads to a flood of high-frequency trading which saturate the market and increase volatility. According to **Investopedia** this market volatility can ripple across to other market and stoke investor uncertainty, decreasing overall investment and thus slowing economic growth.

Brett Romero. "The argument for taxing capital gains at the full rate." Brett Romero. January 14 2016.
'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 in ation is factored into the asset price (as discussed above), there is not even the bene t 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.**

Robert McClelland. "Investors respond to changes in capital gains tax rates, but less than you think." Tax Policy Institute. February 17 2017.
While both figures show that investors do respond to the incentives offered by the lower tax rates, the story turns out to be more complicated. We found that a large amount of capital gains were still being realized in the weeks leading up to the rate decline. **And we found that investors moved only a small share of capital gains across the one-year boundary: A 10 percent decline in tax rates applied to long- term capital gains would delay realizations of only 2.2 percent of gains. These estimates generally are smaller than those other researchers found using less robust data sets.** Investors clearly respond to taxes and increased rates lead to lower realizations. However, their timing of some realizations ignores the difference in tax rates. Why? **In some cases, individuals are pairing sales of assets with accrued gains and assets with accrued losses, and so the tax rate does not matter. From other research we know that there was a rush to sell assets at the end of 2012 ahead of a tax rate increase in 2013. It is also possible that some investors are simply unaware of the lower long-term capital gains tax rate.** However, none of these possibilities completely answers the question, and so there clearly is a role for more research in this area.

Yoshitsugu Kanemoto "On the Lock-In Effects of Capital Gains Taxation" *University of Tokyo*. 20 Dec. 2010. Web. 9 Feb. 2018. <http://www3.grips.ac.jp/~kanemoto/Capgain7.PDF>
A surprising result in this model is that **the lock-in effect does not arise if the basis for capital gains taxation (usually the price at which the current owner acquired the land) is sufficiently high**. In fact, the opposite extreme is obtained. Rather than delaying the sale, the owner sells the land immediately even if development occurs much later. The capital gains tax creates no "real" distortion in this case because it does not distort the buyer's choice of development timing. If the basis is low, however, the owner sells the land just before development and the development time is in general distorted. **A sufficient condition for the non-existence of the lock-in effect is that the basis is the purchase price that was formed under perfect foresight. The lock-in effect arises only when unexpected capital gains exist.**

NA (IRS). "Topic No. 409 Capital Gains and Losses." https://www.irs.gov/taxtopics/tc409
The IRS taxes long-term capital gains at a substantially reduced rate as a means of encouraging individuals and businesses to keep their investments. The difference between the long-term capital gains rate, generally referred to as simply the capital gains rate, and the ordinary income tax rate, which applies to [and the] short-term gains [rate], can be as much as 20%. In 2015, the capital gains rate for those in the 10

and 15% income tax brackets is 0%, meaning those who earn the least are not required to pay any income tax on profits from investments held longer than one year.

Tax Policy Center (Urban Institute and Brookings Institute). “How are capital gains taxed?” http://www.taxpolicycenter.org/briefing-book/how-are-capital-gains-taxed
Q.How are capital gains taxed? A. **Capital gains are profits from the sale of a capital asset, such as shares of stock, a business, a parcel of land, or a work of art. Capital gains are generally included in taxable income, but in most cases are taxed at a lower rate. A capital gain is realized when a capital asset is sold or exchanged at a price higher than its** basis. Basis is an asset’s **purchase price**, plus commissions and the cost of improvements, minus depreciation. Similarly, a capital loss occurs when an asset is sold for less than its basis. Gains and losses (like other forms of capital income and expense) are all measured in nominal terms—that is, not adjusted for inflation. Capital gains and losses are classified as long term if the asset was held for more than one year, and short term if held for a year or less. **Taxpayers in the 10 and 15 percent tax brackets pay no tax on long-term gains on most assets; taxpayers in the 25-, 28-, 33-, or 35- percent income tax brackets face a 15 percent rate on long-term capital gains. For those in the top 39.6 percent bracket for ordinary income, the rate is 20 percent. Short-term capital gains are taxed at the same rate as ordinary income. There also is a 3.8 percent tax on net investment income for single taxpayers with modified adjusted gross income above $200,000** ($250,000 for married couples filing jointly). Note, too, that capital gains in some cases face an effective tax rates above the 23.8 percent statutory rate because of phaseouts in the tax code. Gains on art and collectibles are taxed as ordinary income up to a maximum 28 percent rate. Taxpayers may realize up to $250,000 of gains on their principal residences tax free (or up to $500,000 for married taxpayers filing jointly). Individuals may exclude up to 50 percent of capital gains on stock held for more than five years in a domestic C corporation with gross assets under $50 million on the date of the stock’s issuance. Capital losses may be used to offset capital gains, along with up to $3,000 of other taxable income. The unused portion of a capital loss may be carried over to future years. The tax basis for an asset received as a gift equals the donor’s basis. However, the basis of an inherited asset is "stepped up" to the value of the asset on the date of the donor’s death. The step-up provision effectively exempts any gains on assets held until death from income tax. C corporations pay the regular corporation tax rates on the full amount of their capital gains and may use capital losses only to offset capital gains, not other kinds of income. For most of the history of the income tax, long-term capital gains have been taxed at lower rates than ordinary income. Since 2003, qualified dividends have also been taxed at the lower rates. Figure 1 below shows how the maximum long-term capital gains tax rate and the maximum ordinary individual income tax rate has changed over the years.

Evan Picardo (Investopedia). “Four Big Risks of Algorithmic High-Frequency Trading.” Januaeary 27, 2016. https://www.investopedia.com/articles/markets/012716/four-big-risks-algorithmic-highfrequency-trading.asp
Circuit-breakers were introduced after "Black Monday" in October 1987, and are used to quell market panic when there's a huge sell-off. The SEC approved revised rules in 2012 that enable circuit breakers to kick in if the S&P 500 index tumbles 7% (from the previous day's closing level) before 3:25 PM EST, which would halt market-wide trading for 15 minutes. A 13% plunge before 3:25 PM would trigger another 15-minute halt in the entire market, while a 20% dive would shut the stock market for the rest of the day. In November 2014, the Commodity Futures Trading Commission proposed regulations for firms using algorithmic trading in derivatives. These regulations would require such firms to have pre-trade risk controls, while a controversial provision would require them to make the source code of their programs available to the government, if requested. **The Bottom Line Algorithmic HFT has a number of risks, the biggest of which is its potential to amplify systemic risk. Its propensity to intensify market volatility can ripple across to other markets and stoke investor uncertainty. Repeated bouts of unusual market volatility could wind up eroding many investors' confidence in market integrity.**

Lawrence Mitchell (The Conversation/Case Western Reserve University). “Financial speculation: the good, the bad and the parasitic.” November 11, 2014. https://theconversation.com/financial-speculation-the-good-the-bad-and-the-parasitic-33613
Here are a few examples of that happening. **Stock bubbles are speculative. It is unlikely the underlying corporations could earn anywhere near enough money to justify prices in any reasonable time frame.** That makes them speculative. Stockholders, however, expect management to sustain or increase prices. **This puts pressure on managers to manage for the short-term, damaging the long-term prospects of the productive asset – the underlying corporation.** Mortgage-backed securities provide another example. The concept behind them is legitimate. Commercial banks are limited in the amounts they can lend based upon their capital reserves and the risk of the loans they already have made. When banks sell off some of their risk – as they do in the case of mortgage-backed securities – the amounts of money they are able to lend increases. So it is with other asset-backed instruments – car loans, consumer loans and the like. These assets, when kept within reason, are not speculative, because their return depends upon earnings from the underlying asset. And this behavior is good for the economy because it allows banks to lend more money in the productive economy. **When it becomes bad – when it becomes speculation – is when ever-increasing sums of money are invested in derivative products promising substantial returns that are not supported by the actual underlying earnings. At this point, money that could be invested in the productive economy is diverted to the purely derivative economy – the speculation economy – where it continues to recirculate until the inevitable crash.** Speculation has been, and always will be, with us, whether in financial markets or otherwise, the Dodd-Frank Act notwithstanding. So we would do well to impose some restraints. There are a number of ways we can control speculation, or at least keep it within bounds that might diminish its harm. Perhaps first among these is tax reform, as I’ve outlined in my previous research on the topic. **Establishing a punitive capital gains tax regime for flipping an asset too quickly and something approaching tax relief for longer-term holdings**, ideally on a sliding scale, would go a long way toward eliminating non-economic

"investments." Changing accounting rules so that cash flow becomes more important than earnings per share is another strategy that would significantly reduce the opportunities for creative bookkeeping. It would also help to ensure that the underlying value of the asset can support the returns of the investment securities based on it. There are many more ways to help prevent good speculation from becoming parasitic, but these suggestions are, I hope, a good start.

R/T "Double Taxation"

1. Delink: Marr of the Center on Budget and Policy priorities explains that the "double taxation argument is completely overblown for two reasons: **1-** capital gains taxes are imposed only on the appreciation in the asset's value, not the owner's "basis" (original investment) in the asset, which is new income that hasn't been taxed. **2-** lots of corporations manage to avoid much of their corporate tax and many capital gains are on assets other than corporate stock.

Chye-Ching Huang and Chuck Marr (Center on Budget and Policy Priorities). "RAISING TODAY'S LOW CAPITAL GAINS TAX RATES COULD PROMOTE ECONOMIC EFFICIENCY AND FAIRNESS, WHILE HELPING REDUCE DEFICITS." September 19, 2012.
https://www.cbpp.org/sites/default/files/atoms/files/9-19-12tax.pdf
Critics often claim that capital gains tax constitutes "double taxation." For example, if a taxpayer earns a salary, invests part of that income, and the asset appreciates, some people mistakenly believe that all of the invested salary income is taxed twice: first as ordinary income and again as a capital gain when the taxpayer sells the asset. **In reality, capital gains taxes are imposed only on the appreciation in the asset's value, not the owner's "basis" (original investment) in the asset. The appreciation in the value of the asset, above the amount initially invested, is new income that has not been taxed under the income tax.** There is a legitimate concern about double taxation where corporate stock is concerned. If a company makes a profit but does not pay out that profit as a dividend, the profit will usually cause the company's stock price to go up. When a shareholder sells that stock and pays capital gains tax on the increase in the stock price, the capital gains tax does tax the part of the gain in stock value that reflects the company's earnings, which may have already been subject to the corporate income tax. **This concern is often overblown, however, for two reasons. Much of the capital gain on corporate stock is never subject to the capital gains tax.** As discussed above, **many institutional investors are exempt from capital gains taxes on corporate stock, and there are many reasons why individual investors may not pay capital gains taxes on 19 the corporate stock that they hold** (for example, because they hold the stock until death). JCT estimates that the average effective corporate tax rate is 25 percent52 and that the capital gains taxes that individual investors pay on corporate profits raise that figure by only 3.6 percentage points; taxes on dividends add another 1.6 percentage points. **Thus, when taking into account the tax on corporate profits plus capital gains and dividend taxes, the average effective tax rate on corporate profits is roughly 30 percent.53 This is still below the top statutory corporate tax rate of 35 percent.** (This focus on the double taxation of corporate profits often ignores the fact that wages are also taxed twice, being subject to both income and payroll taxes.) **Even if double taxation of corporate income were considered a legitimate concern, it does not justify a blanket tax preference for all capital gains.** As Leonard Burman points out, **"lots of corporations manage to avoid much of their corporate tax and many capital gains are on assets other than corporate stock".** 54 The large tax preferences for capital gains are poorly targeted to this concern because they attach to all capital gains, not just gains on corporate stock.55

R/T Competitiveness

1. Bruh: A report by the **World Economic Forum in 2017** found that the US is the second most competitive economy in the world, an eight-year high in global rankings, because of our economic efficiency. Eliminating the capital gains tax only decreases efficiency and innovation in the long term by increasing the budget deficit and national debt.

Danielle Paquette "The United States is now the world's second most 'competitive' economy" Chicago Tribune. 9/26/17.
<http://www.chicagotribune.com/business/ct-united-states-competitive-economy-20170926-story.html>
"The United States is now the second most competitive economy in the world, climbing to an eight-year high in global rankings, according to an analysis published Tuesday by the World Economic Forum. The latest edition of the Global Competitiveness Report, an annual ranking of 137 countries based on data from international financial institutions, moved the U.S. up from the number three position to second place, just behind Switzerland. Singapore, the Netherlands and Germany rounded out the top five spots. 'The strength of the United States comes from its

performance in efficiency enhancers and innovation and sophistication factors,' wrote economists Klaus Schwab and Xavier Sala-i-Martín for the WEF, a Swiss group focused on promoting growth worldwide."

R/T FDI

1. Turn: This argument gives us a link into our case because **Xiao of the Asian Development bank** explains that 80% of all FDI is for mergers and acquisitions.

2. Turn: Increase in FDI is actually bad, **Aitken from the American Economic Review** writes that increases in foreign ownership negatively affect the productivity of wholly domestically owned firms in the same industry, because they don't hire domestic employees into higher level positions, limit subcontracting to local firms, and have little incentive to diffuse their knowledge to local competitors. He finds empirically that a 10% increase in the share of foreign ownership of firms decreases overall productivity by about 13%.

3. Turn: Backer from the UPF writes that FDI reduces the number of local businesses created and increases their failure rate because it discourages domestic entrepreneurs to enter the shrinking the domestic market. An extra FDI inflow of 10% would then cause, ceteris paribus, the entry rate of domestic firms to fall with 7% in the long run

Koen de Backer, "DOES FOREIGN DIRECT INVESTMENT CROWD OUT DOMESTIC ENTREPRENEURSHIP", http://www.econ.upf.edu/docs/papers/downloads/618.pdf

"The results in table 3 support the hypothesis that international competition hinders the formation of domestic entrepreneurs. The negative and significant coefficients of IMPGROWTH and FORENTRY clearly suggest that **import competition and the inflow of FDI have a negative effect on the entry of domestic entrepreneurs. Strong import competition causes prices to fall on product markets and discourages domestic entrepreneurs to enter the shrinking the domestic market.** The immediate negative effect of import competition on domestic entry is -0.091 (-0.099*0.921) while the total effect through the partial adjustment process is -0.131 (-0.099*0.921/0.695). The negative effect of foreign entry is significantly larger, **suggesting that the inflow of FDI impedes the entry of domestic entrepreneurs because of stronger competition on the product market as well as skimming off the (best) workers on the labor market.** The immediate effect of foreign entry is -0.214 (= -0,237*0,921), while the total response of domestic entry on foreign entry is -0.702 (= -0,237*0,921/0,305). As the coefficients can be interpreted as elasticities, **an extra FDI inflow of 10% would then cause, ceteris paribus, the entry rate of domestic firms to fall with 7% in the long run.** The insignificant coefficient of FOREXIT suggests that new domestic firms do not easily replace foreign firms leaving Belgium. The results for the domestic exit-equation also support the crowding out effect of domestic firms by foreign firms and to a lesser extent by import competition. The positive coefficient of FORENTRY demonstrates that **the inflow of FDI forces domestic entrepreneurs to exit, because of lower prices on product markets and/or higher wages on the labor market** (encouraging domestic entrepreneurs to become wage workers). The positive albeit insignificant coefficient of FOREXIT in this equation may reflect that the exit of foreign firms directly results in the exit of domestic supplying/buying firms, however further evidence is necessary in order to validate this explanation"

Geng Xiao, Asian Development Bank " People's Republic of China's Round-Tripping FDI: Scale, Causes and Implications July 2004

Most of global FDI, especially FDI among developed countries, is in the form of **mergers & acquisitions** rather than through green-field investment. In 2001, M&A **amounted to as much as 80% of global FDI (little in the form of productive**

investment that creates jobs and exports). Among all the M&A in 2001, 83.5% conducted in the developed countries, 31.1% in U.S. alone and only 5.8% in Asia and the Pacific region. But cross-border M&A are very similar to round tripping FDI except that they are not intended to get around of the regulation. Instead, they are for the purpose of getting the services of global financial markets since the mergers and acquisitions involve more in changes of ownership and control than in net transfers of capital across borders. As 80% of the global FDI are in the form of mergers and acquisitions, we should not be surprised to see global round tripping FDI to reach a level as high as 40% if we account the cross-border ownership swaps as in the mergers & acquisitions deals as round tripping FDI. Global FDI stock increased from $636 billion in 1980 to $6258 billion in 2000, an increase of almost ten folds. During the same period, world trade volume increased only about three folds from $4 trillion in 1980 to $12.5 trillion in 2000. This is mainly due to the increasing importance of mergers and acquisitions related FDI, which could be regarded as a kind of round tripping FDI.

Brian Aitken, American Economic Review, "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela"
http://siteresources.worldbank.org/INTTRADERESEARCH/Resources/544824-1282767179859/Venezuela.pdf
"Using a panel of more than 4,000 Venezuelan plants between 1976 and 1989, we identify two effects of foreign direct investment on domestic enterprises. First, we find that increases in foreign equity participation are correlated with increases in productivity for recipient plants with less than 50 employees, suggesting that these plants benefit from the productive advantages of foreign owners. Second, we find that **increases in foreign ownership negatively affect the productivity of wholly domestically owned firms in the same industry**. These negative effects are large and robust to alternative model specifications. Although previous studies generally found positive effects, we show that these results can be explained by the tendency for multinationals to locate in more productive sectors and to invest in more productive plants."

Interpreted in the context of the framework discussed in Section II, the negative coeffi- cient on Sector_DFI is consistent with a large detrimental impact of foreign investment on the scale of domestically owned production. We can test the implications of Figure 1 directly by observing whether the output of domestically owned firms contracts in response to a rise in foreign share. To do this, we simply reestimate equation (1), excluding plant-level inputs, which measures the relationship between domestic output levels and foreign presence. In the fourth column of Table 1, the coefficient on foreign share is large, negative, and statistically significant. The point estimate, 21.258, suggests that an increase in the share of foreign investment would lead to more than an equal and opposite decline in domestic output**. If foreign investors increased their share of total sales in an industry by 10 percentage points, output produced by plants without foreign investment in that industry would decline by 12.58 percentage points. These results suggest that foreign investment reduces domestic plant productivity in the short run by forcing domestic firms to contract, thereby increasing their average costs**

domestic firms acquire new technology. In a study of 65 subsidiaries in 12 developing countries, Dimitri Germidis (1977) found almost no evidence of technology transfer to local competitors. **The lack of spillovers to domestic firms was attributed to a number of factors, including limited hiring of domestic employees in higher level positions, very little labor mobility between domestic firms and foreign subsidiaries, limited subcontracting to local firms, no research and development by the subsidiaries, and few incentives by multinationals to diffuse their knowledge to local competitors.**

3. Turn: FDI's linked with Higher Poverty

Paolo Figini, University of Bologna, "Does Globalization Reduce Poverty? Some Empirical Evidence For The Developing Countries,"
http://www2.dse.unibo.it/wp/459.pdf
A few concluding remarks can be outlined. First, although many caveats exist, trade openness and the "size of the government" seem to be associated with lower poverty levels. Conversely, financial openness, although not statistically robust, tends to be linked to more poverty. Second, there is a substantial difference between absolute and relative poverty analysis. Trade openness tends not to significantly affect relative poverty, while **financial openness tends to be linked with higher relative poverty**.

5. Global Companies take shape as an oligopoly - results in less competition

Bruce Upbin @ Forbes "The 147 Companies That Control Everything" 2011
http://www.forbes.com/sites/bruceupbin/2011/10/22/the- 147-companies-that-control-everything/

Three systems theorists at the Swiss Federal Institute of Technology in Zurich have taken a database listing 37 million companies and investors worldwide and analyzed all 43,060 transnational corporations and share ownerships linking them. They built a model of who owns what and what their revenues are and mapped the whole edifice of economic power. **They discovered that global corporate control has a distinct bow-tie shape, with a dominant core of 147 firms radiating out from the middle. Each of these 147 own interlocking stakes of one another and together they control 40% of the wealth in the network. A total of 737 control 80% of it all.** The top 20 are at the bottom of the post. This is, say the paper's authors, the first map of the structure of global corporate control.

6. Terminal defense: Gale of the Brookings Institute explains that right now foreigners do not have to pay capital gains taxes in the first place, so there's incentive for them to invest.

Leonard Burman, William Gale, "The Case Against the Capital Gains Tax Cuts", 9/1/97, 1/27/18, https://www.brookings.edu/opinions/the-case-against-the-capital-gains-tax-cuts///ag

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.

R/T Inflation

1. Mitigate: Romero of ASU reports in 2016 that capital gains Inflation is easy to legislate around, just adjust the cost base of their assets to counter-balance it.

2. Delink: Jagoda from the Hill reports in 2018 prominent conservative leaders are urging Trump to issue an executive order to index capital gains taxes to inflation. This solves back for the problems of inflation my opponents are talking about.

Brett Romero. "The argument for taxing capital gains at the full rate." Brett Romero. January 14 2016.

Taxing capital gains implies taxing the asset holder for any increases in the price of that asset. In an economy where in ation exists (i.e. every economy) this means you are taxing increases in the price of the asset due to in ation, as well as any increase in the value of the asset itself. Essentially, even if you had an asset which had only increased in value at the exact same rate as in ation (i.e. the asset was tradable for the same amount of goods as when you bought it), you would still have to pay capital gains tax. **The infation argument although legitimate, is relatively easy to legislate around by allowing asset holders to adjust up the cost base of their assets by the inflation rate each year.**

Naomi Jagoda. "Conservatives urge Trump to issue order on capital gains taxes." *TheHill*. 29 Jan. 2018. Web. 9 Feb. 2018. <http://thehill.com/policy/finance/371213-conservatives-urge-trump-to-issue-order-on-capital-gains-taxes>

Leaders of prominent conservative groups are urging the Trump administration to issue an executive order to index capital gains taxes to inflation, arguing that doing so would end taxes on "phantom income." "For much the same reason that regular income tax brackets were indexed to inflation over 30 years ago, we believe that it is only a matter of fairness to do the same for capital gains," the conservative leaders said Monday in a letter to President Trump and Treasury Secretary Steven Mnuchin. Under current law, when people sell investments, they pay taxes on the difference between the amount they sold the investment for and the amount for which they purchased it. But the conservatives argue that taxpayers' actual gains are lower than the amount that's currently taxed because of inflation.

R/T Entrepreneurship

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.

Victor Fleischer, Professor, Law, University of San Diego, "We Are What We Tax: Job Creationism," FORDHAM LAW REVIEW v. 84, 5—16, p. 2480.
They say it takes a theory to beat a theory, and my theory is this: tax is not a first-order consideration for most entrepreneurs. **Entrepreneurship has long odds; a 1 percentage point increase in the likelihood of success matters far more than a 1 percentage point increase in the size of the reward**. Moreover, if an entrepreneur believes that her marginal utility curve declines as income rises, it may not matter much whether her gains total $ 100 million or $ 200 million at the end of the day in the somewhat unlikely event that everything works out. In other words, **tax breaks for entrepreneurs are mostly inframarginal. Instead of inducing salaried workers to become entrepreneurs, tax breaks mostly reward entrepreneurs for activity they would have engaged in anyway.** Even the idea that entrepreneurs make rational present value calculations is a bit suspect. **What entrepreneurs take on is not risk but uncertainty.** Knightian uncertainty cannot be translated to a net present value calculation, and with-out such a calculation, the impact of taxes is hard to assess. Indeed, it is obvious that at the extreme - say, a capital gains tax rate of 80 or 90 percent - high taxes would dampen entrepreneurship significantly. But capital gains rates have never exceeded 35 percent in the United States. In the range of tax rates one can observe and reasonably discuss as a policy matter, **tax is rarely a first order consideration for most entrepreneurs. We should not be so surprised that there is little empirical evidence to support a claim that taxes have a significant effect on entrepreneurship. As for investors, tax often is irrelevant for a different reason: most of the capital for entrepreneurial ventures comes from tax-exempt investors like pension funds and university endowments. Taxable investors, even the most sophisticated ones, are sometimes unaware of how their investments will be taxed.** Venture capitalists do pay taxes, occasionally, and the tax rate on carried interest is common knowledge. But unless you believe the United States suffers from an undersupply of aspiring venture capitalists, the case for a tax break is weak. **More recent studies have confirmed what most tax academics now believe:** They say it takes a theory to beat a theory, and my theory is this: tax is not a first-order consideration for most entrepreneurs. **Entrepreneurship has long odds; a 1 percentage point increase in the likelihood of success matters far more than a 1 percentage point increase in the size of the reward**. Moreover, if an entrepreneur believes that her marginal utility curve declines as income rises, it may not matter much whether her gains total $ 100 million or $ 200 million at the end of the day in the somewhat unlikely event that everything works out. In other words, **tax breaks for entrepreneurs are mostly inframarginal. Instead of inducing salaried workers to become entrepreneurs, tax breaks mostly reward entrepreneurs for activity they would have engaged in anyway.** Even the idea that entrepreneurs make rational present value calculations is a bit suspect. **What entrepreneurs take on is not there is little evidence to support a claim that U.S. tax policy materially affects the rate of entrepreneurial entry or the growth rate of new firms.**

Clare Wang. "Can Raising the Capital Gains Tax Rate Ever Attract Investors?" Kellogg Insight. May 5 2016.
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 loweringF 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. T**his 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. And while firm owners and executives have no direct control over tax rates, Wang believes that reframing their understanding of tax capitalization —from a black-and-white issue to one with shades of gray—has real value. "**Due to the risk sharing by the government, a firm with high systematic risk may become more attractive to investors when capital gains taxes increase**," she says.

Luzi Hall. Stephanie Sikes. Clare Wang. "Cross-Country Evidence on the Relation between Capital Gains taxes, risk, and expected returns." Wharton school of University of Pennsylvania. November 2015.
Overall, the results in Table 3 support our hypotheses. In terms of economic magnitude, the coefficients on CGRATE suggest that **a one percentage point increase in the capital gains tax rate leads to a 0.76 percentage point increase in RET for the benchmark firms (based on column 8).** For firms with high systematic risk, a one percentage point increase in the capital gains tax rate results in only a 0.33 percentage point increase in RET. The same change in countries with a high market risk premium or low risk-free rate results in a 0.22 percentage point increase and a 0.01 percentage point decrease in RET, respectively. These numbers and differences are clearly economically meaningful, but have to be interpreted with caution. Changes to the capital gains tax rate may, at times, occur in conjunction with other, more extensive adjustments to a country's tax system or institutional environment, while changes in the risk parameters typically are more gradual in nature and do not occur in a discrete manner. We next assess the sensitivity of the above results (see also Appendix 2).

R/T Small Business

1. Delink: Pressman of the Conversation reports in 2017 that if the U.S. economy were dominated by small businesses, intense competition would force large companies to lower prices rather than give profits to shareholders in the form of dividend. But since our economy today is dominated by large corporations facing little pressure to reduce prices the gains from a tax cut will remain with the owners of the business and shareholders.

2. TURN: A capital gains tax makes investing in a small business comparatively more profitable. **Investopedia** reports that right now if a company or person invests in a small business 100% of their capital gain is excluded from the capital gains tax.

3. 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.

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/
Why workers won't gain There are two ways a corporate income tax cut can trickle down to workers' pockets: directly through higher wages or indirectly via lower prices at stores selling the things they buy. Mnuchin contends that workers currently bear 70 percent of the corporate tax burden — or get stuck with 70 percent of the corporate tax hot potato. So, a tax cut would mean that companies pass much of their tax benefits to their employees by paying them more or by cutting prices and increasing the buying power of current workers. 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.

NA (Investopedia). "Section 1202." 2017. https://www.investopedia.com/terms/s/section-1202.asp
DEFINITION of 'Section 1202' **A section of the Internal Revenue Code which provides for capital gain from select small business stock to be excluded from federal tax.** Section 1202 of the Internal Revenue Code (IRC) only applies to qualified small business (QSB) stock that has been held for more than five years. Also called the Small Business Stock Gains Exclusion. BREAKING DOWN 'Section 1202' The Protecting Americans from Tax Hikes (PATH) Act of 2015 was passed by Congress and signed into law by President Barack Obama. The PATH Act was introduced to renew some expired tax provisions for a couple more years and to permanently extend some tax benefits. One of the tax breaks that was made permanent by the Obama administration is the Small Business Stock Gains Exclusion found in Section 1202 of the Internal Revenue Code (IRC). Section 1202 provides an incentive for non-corporate taxpayers to invest in small businesses. The capital gains exemption from federal income tax on the sale of small business stock is the underlying purpose of this IRC section. A small business stock that has been held for at least five years before it is sold will have a portion or all of its realized gains excluded from federal tax. The provision of Section 1202 prior to February 18, 2009 excluded 50% of capital gains from gross income. In order to stimulate the small business sector, the 2009 Stimulus Act increased the exclusion rate from 50% to 75% for stocks purchased from February 18, 2009 to September 27, 2010. For small business stocks that are eligible for the 50% or 75% exclusion, a portion of the excluded gain is treated as a preference item which incurs an additional 7% tax called Alternative Minimum Tax (AMT). AMT is normally imposed on individuals or investors who have tax exemptions that allow them to decrease the income tax paid. **The latest amendment to Section 1202 provides for 100% of any capital gain to be excluded if the small business stock was acquired after September 27, 2010.** In addition, no portion of the excluded gain is treated as a preference item for AMT purposes. Capital gain that is exempt from tax under this section is also exempt from the 3.8% net investment income (NII) tax that is applied to most investment income. The amount of gain that any investor can exclude under Section 1202 is limited to a maximum of the greater of $10 million or 10 times the adjusted basis of the stock. The taxable part of a gain from selling a small business stock is taxed at a maximum rate of 28%. Consider a taxpayer who is single and has $410,000 in ordinary taxable income which places him in the highest tax bracket. He sells qualified small business stock that he acquired on September 30, 2010 and realized a profit of $50,000. He can exclude 100% of his capital gains which means the federal tax due on his gain is $0. Assuming he purchased the stock on February 10, 2009 and after 5 years, sells it for a $50,000 profit. His federal tax due on capital gains would be 28% x (50% x 50,000) = $7,000.

Clare Wang. "Can Raising the Capital Gains Tax Rate Ever Attract Investors?" Kellogg Insight. May 5 2016.
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. T**his 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. And while firm owners and executives have no direct control over tax rates, Wang believes that reframing their understanding of tax capitalization —from a black-and-white issue to one with shades of gray—has real value. "**Due to the risk sharing by the government, a firm with high systematic risk may become more attractive to investors when capital gains taxes increase**," she says.

Luzi Hall. Stephanie Sikes. Clare Wang. "Cross-Country Evidence on the Relation between Capital Gains taxes, risk, and expected returns." Wharton school of University of Pennsylvania. November 2015.
Overall, the results in Table 3 support our hypotheses. In terms of economic magnitude, the coefficients on CGRATE suggest that **a one percentage point increase in the capital gains tax rate leads to a 0.76 percentage point increase in RET for the benchmark firms (based on**

column 8). For firms with high systematic risk, a one percentage point increase in the capital gains tax rate results in only a 0.33 percentage point increase in RET. The same change in countries with a high market risk premium or low risk-free rate results in a 0.22 percentage point increase and a 0.01 percentage point decrease in RET, respectively. These numbers and differences are clearly economically meaningful, but have to be interpreted with caution. Changes to the capital gains tax rate may, at times, occur in conjunction with other, more extensive adjustments to a country's tax system or institutional environment, while changes in the risk parameters typically are more gradual in nature and do not occur in a discrete manner. We next assess the sensitivity of the above results (see also Appendix 2).

R/T Impact: Economic Growth

1. Delink:. **A- Norris from the New York Times** reports that over the last 30 years, the economy and the stock market has tended to do better when the capital gains rate was high. **B- McClelland from the Tax Policy Center** finds that from 1950-2015, a lower CG tax did not spur economic growth.

2. Turn: Economic growth is empirically bad for jobs. **Maxton of the Guardian** reports in **2015** that economic growth requires manufacturers to steadily reduce input costs. When companies reduce input costs, jobs are loss. This is why he reports that in the last 35 years, the world has experienced the fastest economic growth in human history, but the highest unemployment rate.

Graeme Maxton "Economic growth doesn't create jobs, it destroys them." *the Guardian*. 21 Apr. 2015. Web. 14 Feb. 2018. <http://www.theguardian.com/sustainable-business/2015/apr/21/jobs-economic-growth-inequality-environment-club-of-rome>
The way the current economic system is designed, it does the opposite. **The constant drive to increase productivity, which is what economic growth really is, requires manufacturers to steadily reduce input costs. Economic growth destroys jobs**. Before the 1980s this didn't matter much, because many new manufacturing businesses were established to soak up a rising working population. Since then, though, this has not happened – growth has increased the number of people without jobs, certainly in the rich world. **In the last 35 years, the world has experienced the fastest economic growth in human history. Yet**, according to the Organisation for Economic Co-operation and Development (OECD), **unemployment went up.** Even extreme policy tools introduced since 2007, such as ultra-low interest rates and quantitative easing, have not achieved much. We were told that these would generate faster economic growth, yet growth has remained weak and unemployment is still higher than it was three decades ago.

Norris, Floyd. "A Starting Point for Tax Reform: What Reagan Did." *Nytimes.com*. 23 Nov. 2012. Web. 2 Feb. 2018. <https://www.nytimes.com/2012/11/23/business/a-starting-point-for-tax-reform-what-reagan-did.html>
With that in mind, we come to the capital gains tax break. It is defended as critical to economic growth and prosperity, on the theory that without it money will not be invested. But the empirical data to back that up is lacking, to say the least. **Over the last 30 years, the economy and the stock market has tended to do better when the capital gains rate was high.** That does not prove causation, of course. But if the data went the other way you can be sure supporters of low capital gains rates would be citing it. It also needs to be understood that the current system ends up discriminating against many who own stocks and mutual funds and thus receive capital gains and dividends. If your investments are in retirement plans, like 401(k) accounts, the profits are not taxed until the money is taken out. And then the money is taxed at ordinary income tax rates, regardless of whether it originated as capital gains.

Rob McClelland, 17, 02,06,2017, Urban – Brookings Tax Policy Center, 1-31-2018
http://www.taxpolicycenter.org/sites/default/files/publication/138251/2001145-capital-gains_0.pdf (NK)
That is, Congress could tax corporate earnings only once, taxing the corporation or its shareholders but not both**. The lower tax for capital gains also does not appear to significantly spur economic growth**. Figure 2 shows the top tax rates on long-term capital gains along with real economic growth **from 1950 to 2015**. Of course, **many factors determine growth, but the tax rate on capital gains does not appear to be significant**. Capital gains may arise from risky investments, and a lower capital gains tax rate presumably encourages such risk taking. However, taxing gains while also allowing deductions for losses reduces risk by reducing the after tax variance of returns. Under current law, taxpayers can use capital losses to offset capital gains and, for non-corporate taxpayers, up to $3,000 of additional taxable income other than capital gains. Non-corporate taxpayers can also carry any remaining capital losses forward to future years indefinitely.

R/T Economic Growth Reduces Inequality

1. TURN: The Congressional Research Service found that capital gains tax cuts are by far the biggest contributor to growth in income inequality. While income grew 25 percent from 1996 to 2006 for all Americans, due to CGT cuts, income grew 74 percent for the top 1 percent and 96 percent for the top 0.1 percent. This is why **Barro of the New York Times** reports that a capital gains tax repeal has even been criticized by the extremely rich.

Travis Waldron (ThinkProgress). "Capital Gains Tax Cuts 'By Far' The Biggest Contributor To Growth In Income Inequality, Study Finds." February 13, 2013.
https://thinkprogress.org/capital-gains-tax-cuts-by-far-the-biggest-contributor-to-growth-in-income-inequality-study-finds-9f7e6b4a8058/
Changes in tax law that reduced the federal tax rate on capital gains income is "by far the largest contributor" 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: By far, the largest contributor to this increase was changes in income from capital gains and dividends. Changes in wages had an equalizing effect over this period as did changes in taxes. Most of the equalizing effect of taxes took place after the 1993 tax hike; most of the equalizing effect, however, was reversed after the 2001 and 2003 Bush-era tax cuts. […] The large increase in the contribution of capital gains and dividends to the Gini coefficient, however, is due to the large increase in the share of after-tax income from capital gains and dividends, and to the increase in the correlation of this income source with after-tax income. Hungerford's findings are similar to a 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. (HT: Greg Sargent)

Josh Barro (New York Times). "Rubio's Call for No Capital Gains Tax Is a Break With the G.O.P," February 4 2016.
https://www.nytimes.com/2016/02/04/upshot/rubios-call-for-no-capital-gains-tax-is-a-break-with-the-gop.html
When Steve **Forbes ran for president in 1996 on a plan that called for no taxes on dividends and capital gains, Mitt Romney, then a private citizen, took out a full-page ad in The Boston Globe attacking his proposal as plutocratic. "The Forbes tax isn't a flat tax at all — it's a tax cut for fat cats!"** Mr. Romney's ad declared, noting that "Kennedys, Rockefellers and Forbes" could end up with a tax rate of zero, while ordinary people would be left paying 17 percent on their wage and salary income under Mr. Forbes's plan. **The mainstream Republican position on capital gains has long been that they should be taxed at a low rate, but not zero.** In 1996, Mr. Romney was supporting Bob Dole, the eventual nominee, whose campaign platform called for a 14 percent tax rate on capital gains. In 2003, President George W. Bush signed a law setting the rate at 15 percent, a policy that John McCain proposed to continue if elected in 2008. (The current maximum rate on capital gains is 23.8 percent, after tax increases that took effect in 2013.) **When Mr. Romney was the Republican nominee in 2012, he proposed to abolish the capital gains tax for moderate earners** — who typically have few capital gains anyway — but not for the Kennedys, Rockefellers and Forbeses, who would have continued paying 15 percent. But the once-fringe idea of abolishing a capital-gains tax is going mainstream this year courtesy of Senator Marco Rubio. His tax plan breaks with past establishment Republican candidates for president in its extreme generosity to taxpayers who derive their income from investments rather than work. His plan would impose no tax at all on interest, dividends or capital gain income from stocks. It would also set a maximum tax rate of 25 percent on business income, both for large corporations and small ones. In many cases, that would mean business owners would pay a lower tax rate on profits than their employees would pay on their wages — even after counting both taxes paid by the business and those paid by the business owner directly.

R/T Impact: Innovation/R&D

1. Mitigate: Rosenberg of the Tax Policy center explains that tax breaks exist for startups and investors who deal with research and development. Insofar as this is true we are the only side that makes it comparatively more profitable to invest in R&D than the stock market or one's own company.

Early Stage Innovation Companies writes in 2017 "if you invest in a qualifying early stage innovation company you may be eligible for modified capital gains tax (CGT) treatment, under which you may disregard capital gains on qualifying shares that are continuously held for at least 12 months and less than ten years."

2. Delink: Increasing investment isn't going to produce any significant outcome. **Knott from the Harvard Business Review** writes in **2017** that in the last year, spending for R&D went up 5%, yet produced very little results. In fact, returns on companies R&D spending has declined 65% over the past three decades. As so far as R&D investment isn't even profitable, companies are unlikely to invest in it anyway.

DON'T READ IF YOU READ FIRST TURN

3. TURN: Large corporation are profit motivated so they have an incentive to invest in innovation that provides the best profits, not that helps people. **Das of the Independent** explains that technological innovation has exacerbated declines in employment and incomes by eliminating certain task and deskilling many jobs.

Rosenberg, Joseph. "tax policy and investment by startups and innovative firms." tax policy and investment by startups and innovative firms, www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000103-Tax-Policy-and-Investments-by-Startups-and-Innovative-Firms.pdf.

"In section 3, we apply that framework to today's federal tax code. Like prior studies, we find that debt-financed investments enjoy a significant advantage over equity-financed ones, and that pass-through entities face lower effective tax rates than C corporations. We also find that **investments in** intellectual property, **especially research and development, face significantly lower effective taxes than do tangible investments in equipment, structures, and inventory.** Favorable depreciation rules reduce effective tax rates for startups and other small businesses that invest in equipment. **Favorable capital gains treatment for investors can also help startups, but the effect is small compared to other tax provisions."**

Early Stage Innovation Companies. Australian Govt, July 2017, https://www.ato.gov.au/Business/Tax-incentives- for-innovation/In-detail/Tax-incentives- for- early-stage- investors/ "From 1 July 2016, **if you invest in a qualifying early stage innovation company you may be eligible for modified capital gains tax (CGT) treatment, under which you may disregard capital gains on qualifying shares that are continuously held for at least 12 months and less than ten years.** If you acquired newly issued shares in a qualifying early stage innovation company and made capital gains on those shares from a CGT event that took place in 2016–17, that gain is subject to ordinary CGT treatment. You must disregard capital losses made on an investment in a qualifying early stage innovation company that is held for less than ten years."

Anne Marie Knott "Is R&D Getting Harder, or Are Companies Just Getting Worse At It?." *Harvard Business Review*. 21 Mar. 2017. Web. 16 Feb. 2018. <https://hbr.org/2017/03/is-rd-getting-harder-or-are-companies-just-getting-worse-at-it>

We know innovation drives corporate growth. As Strategy& reported in its 2015 survey of 1,757 executives, "innovation today is a key driver of organic growth for all companies — regardless of sector or geography." **According to that report, the top 1,000 R&D spenders invested $680 billion in R&D that year, up 5% from the prior year**. Historically, R&D has been viewed as the engine of national economic growth as well. **Despite the importance of innovation to companies, as well as to the broader economy, despite the 250% rise in the number of scientists and engineers engaged in R&D**, and despite all the experts dedicated to helping companies innovate, **the money companies spend on R&D is producing fewer and fewer results. In fact, my research shows the returns to companies' R&D spending have declined 65% over the past three decades.** Not coincidentally, this decline in companies' research quotient or RQ (a metric I've developed that measures R&D productivity, or how much output they get for their innovation inputs) mimics the decline in U.S. GDP growth over the past 30 years.

Satyajit Das (Independent). Independent. Accessed 1/29. Published 20 Nov 2016.
http://www.independent.co.uk/voices/technology-automation-of-jobs-unemployment-wage-stagnation-a7428081.html.
Technology exacerbated declines in employment and incomes by eliminating certain tasks and deskilling many jobs. Robotics and complex computerized equipment successfully replaced often skilled labor. Computer software is now replacing journalists being able to synthesize news items electronically by crawling the worldwide web. Even traders in financial markets are being replaced by automated algorithms.

R/T Impact: Jobs

1. Non-unique/TURN: right now we're on the brink of jobs increasing, abolishing the tax and shell shocking the economy will only make us run off our course. **Cushman & Wakefield**, **in September of 2017** writes, The U.S. economy has entered a Goldilocks scenario, one that is not too hot or too cold, but "just right," Real GDP is on track to grow slightly over 2% in 2017, generating nearly 2 million net new jobs this.

2. Delink: Egan of CNN reports in 2017 that rather than invest in jobs companies plan to make large, immediate capital investments in the United States if they receive tax cuts. Egan furthers that the idea of a job boom is "a lot of smoke and mirrors," since the unemployment rate is already at 4.1% and companies already have plenty of cash to make investments.

3. Delink: The Center for Budget and Policy Priorities finds that this is empirically false. Tax cuts for the wealthy won't lead to meaningful job growth. Indeed, small business job growth was far stronger after the Clinton and Obama rate increased compared to the lower rates under Bush.

Cushman and Wakefiel, September, 2017 "Just Right…Goldilocks Economy Bodes Well for Property Demand." US Macro Forecasthttp://webcache.googleusercontent.com/search?q=cache:IVSuqK_7ak8J:www.cushmanwakefield.com/~/media/reports/corporate/Macro%2520Forecast/Sept2017/CW_National_Forecast_Report_Sept2017.pdf+&cd=1&hl=en&ct=clnk&gl=us&client=safari DM
U.S. economy maintaining a comfortable, sustainable stride Fiscal policy uncertainty remains, but odds still favor some stimulus (e.g., tax cuts) will be enacted by year-end 2018 Rising vacancy rates will be supply-driven for most asset classes, as demand persists. Capital markets activity to moderate slightly from 2016 levels but still strong Executive Summary Property Market Demand Strong, Construction Levels Rising **<u>The U.S. economy has entered a Goldilocks scenario, one that is not too hot or too cold, but "just about right." Real GDP is on track to grow slightly better than 2% in 2017, generating just under 2 million net new jobs this year.</u>** The economy's temperature also seems to be "just about right" for consumers. Con dence is hovering at a near-15 year high, retail sales are accelerating at a 5% rate year-over-year and credit is owing. In addition, the global economy is also ring back up: world nominal GDP growth is expected to be four times greater this year than it was last year, bolstering global trade and business con dence. But by many metrics, the economy is certainly not "too hot." In ation is one such measure. Despite a low unemployment rate, wage growth remains mostly muted and core in action remains stubbornly below the Federal Reserve's target rate of 2%. History suggests that when the labor market is near full employment, core in ation should be higher; however, in August, the Fed's preferred measure of in ation—the core PCE—was up only 1.4% year-over-year. While this may be related to transitory factors (e.g., pass-through e ects from lower oil prices, a one-o decline in medical costs and cell phone prices, etc.), the reality is that in ation, or lack thereof, has been ba ing economists for years. Complicating matters further are Hurricanes Harvey and Irma.

Matt Egan (CNN). "Will companies spend tax savings to create jobs?" December 19, 2017.
http://money.cnn.com/2017/12/19/investing/tax-plan-jobs-trump-ceo-yale-survey/index.html
<u>CEOs may like the idea of a big tax cut for businesses, but that doesn't mean they'll use the savings to create American jobs. Just 14% of CEOs surveyed by Yale University said their companies plan to make large, immediate capital investments in the United States if the tax overhaul passes.</u> Capital investments, like building plants and upgrading equipment, can lead to hiring. Only a slim majority of the CEOs, 55%, said the Republican tax package should be signed into law. The Yale CEO Summit surveyed 110 prominent business leaders of Fortune 500 and Fortune 50 companies last week. The findings, along with other surveys, suggest that the tax plan may not have the dramatic impact on jobs that President Trump and Republicans in Congress have promised. Trump tweeted over the weekend that "TAX CUTS" will lead to "higher growth, higher wages, and more JOBS!" The GOP tax overhaul would slash the corporate tax rate from 35% to 21% and offer incentives for companies to bring foreign profits back home. Jeffrey Sonnenfeld, who leads the Yale CEO Summit, said in an interview that it's "astounding" how few

companies plan to reinvest their tax savings. **He called the idea of a jobs boom from the tax plan "a lot of smoke and mirrors," especially because the unemployment rate is just 4.1% and companies already have plenty of cash to make investments.** Sonnenfeld declined to name the CEOs who participated in the poll. He said it included "Trump supporters" and former members of the president's now-defunct advisory councils of business leaders.

NA (Center for Budget and Policy Priorities). "Large Job Growth Unlikely to Follow Tax Cuts for the Rich and Corporations." October 10, 2017.
https://www.cbpp.org/research/federal-tax/large-job-growth-unlikely-to-follow-tax-cuts-for-the-rich-and-corporations
And, even taking this effect into account, TPC finds that about 70 percent of the benefit of a corporate rate cut ultimately flows to the top fifth of households, and more than a third flows to the top 1 percent. Some types of corporate tax cuts risk hurting jobs. Under the GOP framework, for example, foreign profits of U.S.-based multinational corporations would face a tax rate of zero (due to adoption of a "territorial" tax system) while U.S. profits would face a rate of 20 percent. This massive, permanent tax advantage for foreign over domestic profits would encourage corporations to shift investments overseas, threatening U.S. jobs and wages. Top-Tilted Tax Cuts Don't Boost Small Businesses or Entrepreneurship Proponents of high-income tax cuts often argue that small businesses create most new jobs and face unfairly high tax rates if organized as "pass-through" businesses such as partnerships, S corporations, and sole proprietorships. However, these claims are misleading: • Pass-through businesses are taxed through the individual income tax, and so have the advantage of being exempt from the corporate tax on profits and taxes on dividends. Further, most already face very low rates and would not benefit: 86 percent of filers with pass-through income are taxed at a statutory marginal income tax rate of 25 percent or lower. • The GOP proposal to cut the top rate for pass-through income to 25 percent would overwhelmingly benefit the wealthy. About 80 percent of the tax cut would flow to millionaires, including hedge funds managers, lawyers, and lobbyists — not "mom and pop" businesses. • But **tax cuts for the wealthy won't likely lead to meaningful job growth. Indeed, small business job growth was far stronger after the Clinton and Obama top rate increases than the Bush tax cuts.** (See chart.) • Tax cuts for the wealthy don't effectively encourage entrepreneurship. **In fact, "higher tax rates are more likely to encourage, rather than discourage, self-employment," the Congressional Research Service concludes. One reason why: taxes may reduce earnings volatility. The government bears some of the risk of a new venture by allowing tax deductions for losses, but taxes the profits of successful businesses.** • Research shows that young, startup companies (rather than small businesses generally) disproportionately create new jobs. **Tax increases on high-income people don't seem to discourage entrepreneurs from starting businesses; indeed, startup firms typically pay little or no tax early on.** Tax Cuts for Wealthy and Corporations Could Hurt Workers 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.

R/T Increasing Employment Reduces Inequality

R/T Impact: Wages

1- Delink: Barro of the New York Times reports that history shows CGT cuts offer empty promises to workers. He explains that there seems to have been virtually no impact of the 2001 or 2003 tax cuts on capital and caused zero change in corporate investment and employee compensation.

Josh Barro (New York Times). "Rubio's Call for No Capital Gains Tax Is a Break With the G.O.P." February 4 2016.
https://www.nytimes.com/2016/02/04/upshot/rubios-call-for-no-capital-gains-tax-is-a-break-with-the-gop.html
Unfortunately, **recent experience with capital tax cuts has not been supportive of the idea that they will do much to lift economic growth. "There seems to have been virtually no impact of the 2001 or 2003 tax cuts on capital,"** said William Gale, co-director at the Urban-Brookings Tax Policy Center and a former staff member at the Council of Economic Advisers under George H.W. Bush. **He pointed to a 2015 paper from the University of California, Berkeley, economist Danny Yagan, finding that the 2003 cut in dividend taxes "caused zero change in corporate investment and employee compensation."**

R/T Increased Wages Reduce Inequality

R/T Hurts the Middle Class

1. Mitigate: the middle class rarely benefit from capital assets, this only applies to the wealthy who are able to afford the tax. **Travis Brown in 2015** explains higher income households are more likely to own capital assets

2. Delink: Jared Bernstein of Washington Post explains about 80 percent of the value of the market has been held by the top 10 percent. Within that top 10 percent, the share of stock wealth held by the top 1 percent is about equal to the share held by the 90-99th percentiles

3. Turn: tax cuts help the wealthy and hurt the middle class- **Davidson of USA today** explains by reducing taxes for households and businesses strains [the economy's] capacity to respond to the surge in activity, stoking faster wage growth and inflation. That will lead the Federal Reserve to raise interest rates more rapidly, discouraging home purchases and consumer and business borrowing.

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/.
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 enjoys. 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. Regardless of the debate, capital gains taxes are a reality that affects many families, although they are rarely discussed or prepared for. As part of sound tax planning, it's important for every family to understand what their capital assets are and have a clear understanding of their assets' tax obligations.

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.
First, there's a bit of a myth that through indirect holdings, like holdings of stock in a pension fund, the stock market has become democratized, and everyone's all in. Not so. Wolff's data shows that while stock ownership has increased over the past few decades, in 2013 (his most recent data point), less than half — 46 percent — of households owned stocks, either directly or through their holdings in some sort of fund (e.g., a retirement account). Contrast that with the 94 percent ownership rate of the top 1 percent. But even that 46 percent ownership rate gets misunderstood, because it doesn't differentiate how much stock is owned by different income classes. Less than a third of all households hold at least $10,000 in stocks, compared to 93 percent of those households in the top 1 percent. 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. Within that top 10 percent, the share of stock wealth held by the top 1 percent is about equal to the share held by the 90-99th percentiles; both groups' shares are twice as large as the share that the entire bottom 90 percent holds.

Paul Davidson "How the GOP tax plan would affect the economy" USA Today Nov 2, 2017
https://www.usatoday.com/story/money/2017/11/02/how-gop-tax-plan-would-affect-economy/825445001/
The Republican tax-cut package unveiled Thursday would give the U.S. economy a big sugar-high next year. But the inevitable comedown is likely to follow, economists say. By reducing taxes for households and businesses, the reform would boost consumer spending and business investment in the short term, lifting economic growth. But with the economy at full employment, it also would strain its capacity to respond to the surge in activity, stoking faster wage growth and inflation. That will lead the Federal Reserve to raise interest rates more rapidly, discouraging home purchases and consumer and business borrowing, says Mark Zandi, chief economist at Moody's Analytics. interest rates also would rise because the plan would reduce federal tax revenue by $1.5 trillion, swelling the deficit and forcing the government to borrow more

to finance spending. “It juices growth in 2018, but it likely reduces growth in the early part of the next decade.” Zandi says. “My sense is that 10 years from now, the economy will be no bigger than it would have been.” Under the plan, the economy would grow about 3% next year, up from 2.2% under the status quo, Zandi says. He says the economy would add an additional 800,000 or so jobs in 2018; Greg Daco, chief economist at Oxford Economics estimates a more modest gain of 600,000.

R/T Interest Rates

1. Non-unique: Reuters reports in late 2017 that the U.S. central bank raised interest rates from 1.25 percent to 1.50 percent and the Fed’s is planning on three additional rate increases in 2018 and 2019.

2. Non-unique: Crudele of the New York Post reports in December of 2017 if the federal government doesn’t need an excuse to hike up interest rates, they are already using Trump’s new tax plan to increase interest rates. You don’t need to abolish the capital gains tax to make this happen.

3- Delink: This doesn’t necessarily help. **Pettinger of Economics Help** explains that even if interest rates are lowered during a recession, banks can still be reluctant to lend and consumers can still be reluctant to spend.

Howard Schneider, Lindsay Dunsmuir (Reuters). “Fed raises interest rates, keeps 2018 policy outlook unchanged.” December 13, 2017.
https://www.reuters.com/article/us-usa-fed/fed-raises-interest-rates-keeps-2018-policy-outlook-unchanged-idUSKBN1E70IX
In an early verdict on the tax overhaul, Fed policymakers judged it would boost the economy next year but leave no lasting impact, with the long-run potential growth rate stalled at 1.8 percent. The White House has frequently said its tax plan would produce annual GDP growth of 3 percent to 4 percent. The expected fiscal stimulus, coming on the heels of a flurry of relatively bullish data, cleared the way for **the U.S. central bank to raise rates by a quarter of a percentage point to a range of 1.25 percent to 1.50 percent. It was the third rate hike this year. But the Fed’s forecast of three additional rate increases in 2018 and 2019** was unchanged from its projections in September, a sign the tax legislation moving through Congress would have a modest, and possibly fleeting, effect. The rate increase represented a victory for a central bank that has struggled at times to deliver on its promised pace of monetary tightening. It also allowed Fed Chair Janet Yellen, at her final press conference before her term ends in February, to signal an all-clear for the U.S. economy a decade after the onset of the 2007-2009 recession.

Crudele, John. "Why the Fed raising interest rates wasn't all that surprising." *New York Post*. 11 Dec. 2017. Web. 10 Feb. 2018. <https://nypost.com/2017/12/11/why-the-fed-raising-interest-rates-wasnt-all-that-surprising/>
One is that fixed-rate investments like government and municipal bonds are going to become more attractive. While that’s not likely to cause many investors right now to pull money out of the high-flying stock market, there will come a day when the safety of a fixed yield will come back in style. And increasing borrowing costs will also cause companies and individuals to go into debt less, which means they will buy less. **So by increasing rates, the Fed is working counter to what the Trump administration and Congress are trying to do — that is, get the economy growing faster than the barely 3 percent growth it’s now attaining**. I’ve been telling you for years that the problem isn’t just that the US economy wasn’t growing fast enough. The real problem is that the economy is broken. And now you are seeing in real life what I mean. While Congress is taking drastic and dangerous measures on taxes to increase growth, the Fed has to take measures that are counterproductive to that goal by raising interest rates and reducing the size of its portfolio, which is swollen from quantitative easing.

Tejvan Pettinger. "Liquidity Trap Explained." *Econ.economicshelp.org*. 8 Feb. 2018. Web. 10 Feb. 2018. <http://econ.economicshelp.org/2009/10/liquidity-trap-explained.html>
1. Expansionary monetary policy – cutting interest rates. Cutting interest rates should help to boost aggregate demand. Amongst other things, lower interest rates reduce mortgage interest payments, giving consumers more disposable income. Lower interest rates also encourage firms and consumers to spend rather than save. (effect of lower interest rates) As well as cutting base rates, the monetary authorities could try and reduce other interest rates in the economy. e.g. the Central Bank could buy government bonds or mortgage securities. Buying these bonds causes lower interest rates and helps to boost spending in the economy. **However, lower interest rates don’t always work. In 2008- 09, interest rates were cut to 0.5% in the UK, yet it didn’t avoid a recession. This was because: 1) Banks didn’t pass the base rate cut onto consumers. 2) Although interest rates were low, banks were reluctant to lend and consumers reluctant to spend**.

R/T Farmers

1. Impact Turn: Wolff of the AFBA explains in 2017 that capital gains tax disincentivize small farmers to sell. Abolishing it would be a great incentive to do the alternative. This is problematic as **Bunge of WSJ** reported **last October**, food production is increasingly seeing small farms being bought out by large monocultural industries, being only 4% of sales but producing 60% of the output. This can jeopardize food insecurity around the world because **Chan of Harvard** explains that industrial monoculture plants lack genetic diversity focusing on one crop and are extremely vulnerable to random environmental shifts and pests that could extinguish the entire 60% of exports in one endemic. Voting pro would jeopardize the food security of the very people they are trying to help.

2. Minimize: Maxwell of Share America reported **last October** that American farms saw an 8% increase in exports selling more than the rest of the world than ever before. It's already improving in the status quo, make them prove how much more it increases in their world and if it's really that critical to their "clarity of impact".

Pat Wolff. American Farm Bureau Federation. "Capital Gains Taxes and Stepped Up Basis" October 2017
Not only are land and buildings eligible for stepped- up basis at death, but so is equipment, livestock, stored grains and stored feed. The new basis assigned to these assets resets depreciation schedules, providing farmers and ranchers with an expanded depreciation deduction. **Starting or expanding a farm or ranch requires a large investment because of the capital-intensive nature of agri-business, with land and buildings typically accounting for 79 percent of farm or ranch assets. The higher the capital gains tax rate, the greater the disincentive to sell property or alternatively to raise the asking price.** If landowners are discouraged to sell, it can be harder for new farmers to acquire land and hurt agriculture producers who want to buy land to expand their business to include a son or daughter. To remain efficient and profitable, farmers and ranchers must have the flexibility to change their businesses to be responsive to market signals from American and overseas consumers. **Because capital gains taxes are imposed when buildings, breeding livestock and farmland are sold, the higher the tax the more difficult it is for producers to shed unneeded assets to generate revenue to adapt and upgrade their operations.**

Jacob Bunge. "Supersized Family Farms Are Gobbling Up American Agriculture." The Wall Street Journal. October 23 2017.
Big operations like Mr. Frahm's, which he has spent decades building, are prospering despite the deepest farm slump since the 1980s. Years of low prices for corn, wheat and other commodities brought on by a glut of grain world-wide are driving smaller American farmers out of business. **Farms with $1 million or more in annual sales—only 4% of the total—now produce two-thirds of the country's agricultural output, the largest portion since the U.S. Agriculture Department's census began tracking the statistic in the '80s. The shift means food production is being increasingly handled by larger farms,** which can be more financially secure. **It also fuels a cycle in which size begets size, further transforming the rural economy. Smaller-scale farmers struggle to expand their operations to become profitable. Work becomes more scarce.** Farm-supply retailers and grain companies are pressured, since larger farms use their size to wrangle better deals. Owners say the big operations—which are still almost entirely run by private farmers and not companies—use machinery and technology more efficiently, get better prices on bulk supplies and manage to keep more of the profits by cutting out middlemen.

TH Chan. "Biodiversity and Agriculture." Harvard School of Public health. Center for Health and Global Environment. 2018.
Monocultures, the agricultural practice of producing or growing genetically similar, or essentially identical plants, over a large areas (stands), year after year, is widely used in modern industrial agriculture. It is often argued that monoculture produces greater yields by utilizing plants' abilities to maximize growth under less pressure from other species and more uniform plant structure. **However, these plants are selected because of their ability to grow well under the specific conditions of a particular place, and therefore are at greater risk when these conditions change, for instance in extreme weather, than are genetically diverse stands.** Genetically diverse crops can better survive in environments in which conditions fluctuate, because some are vulnerable to certain changes and other are not. Thus genetic diversity is likely to reduce the odds of massive crop failure and to contribute to greater stability of production. T**he vulnerability of monocultures to disease and insects also illustrates this point. Pathogens spread more readily, and epidemics tend to be more severe, when the host plants (or animals) are more genetically uniform and crowded. The pathogens encounter less resistance to spreading than they do in mixed stands. Outbreaks of disease, invasions of insects, and climatic anomalies have caused many wholesale crop and animal failures in the past.**

Maxwell, Mary Jane. "U.S. Farmers Feed the World." ShareAmerica, 14 Oct. 2017, share.america.gov/u-s-farmers-feed-world/.
"**American farmers are selling more of their crops to the rest of the world than ever before in the history of U.S. agriculture**. "Today, America's farmers feed not only our nation, but millions of people around the world," President Trump said earlier this year as he signed an executive order aimed at promoting American agriculture and lowering the cost of food at home and for "our customers around the world." **The United States — already the world's top exporter of food and agricultural products — is expected to ship nearly $140 billion in crops in 2017, an 8 percent increase from 2016.** That's good news for both American farmers and the nations who import high-quality, safe and reliable U.S. agricultural products and so can provide enough food for their entire populations."

R/T Helps Cryptocurrency

1. Non-unique: cryptocurrencies cannot be tracked and therefore taxed by a government, **Martindale of Digital Trends explains** Any attempt control bitcoin simply won't work. [Bitcoins] can't be linked to owners who don't want to be identified. Bitcoin is not linked to any territory or financial institution. Trying to ban bitcoin or regulate it in a manner that allows actual oversight would be much the same. It's impossible on a technical level.

a. Even if a country was to somehow prevent bitcoin transactions from taking place within their borders, a simple VPN or Proxy system would let users operate internationally with little issue.

2. Turn: Cryptocurrency encourages criminality. **Kara Driscoll of Dayton Daily News** explains virtual currencies like bitcoin — already known to be used for illegal transactions, including sex and drug trafficking — will play an even bigger crime role as more investors use it as their preferred payment choice.

3. Turn: Cryptocurrency encourages terrorism. **Barnes of Express UK** explains American woman is accused of laundering Bitcoin and other cryptocurrencies to help ISIS.

Jon Martindale "Go ahead, pass laws. They can't kill bitcoin, even if they try" Digital Trends December 19, 2017
https://www.digitaltrends.com/computing/dont-worry-about-bitcoin-regulation-it-cant-be-stopped/
Bitcoin is a famously decentralized cryptocurrency, a system of storing value, and a somewhat less-effective transaction medium. It allows near-instantaneous transfers all over the world without a middle man or regulatory body giving it the go-ahead. Fans of cryptocurrency fear government regulation could ruin it, but they shouldn't be concerned. **Any attempt control bitcoin simply won't work.** Beyond the difficulties presented by the decentralization of bitcoin itself, governments and regulatory bodies have shown they lack understanding of technological topics, and bitcoin is one of the most complex. As governments struggle to ban technologies like Tor and encryption, it seems impossible to imagine them gaining the ability to truly impact bitcoin – and its alt-coin contemporaries – in a way that could impede its progress. Historical precedent The oversight jitters are understandable. There have been some attempts at regulation over the years, and now that bitcoin's value has spiked to unprecedented new heights, there is greater discussion than ever from governments around the world. Perhaps it's no wonder that half of those surveyed in a recent report of bitcoin owners claimed they didn't want any regulation of cryptocurrency in the coming years. The blockchain it's built upon does not require an institution to operate it. In December 2013, the Chinese government banned financial institutions from using bitcoin, causing a downturn in the cryptocurrency's value that would set a precedent for its worth over the coming years. Less than a year later, in April 2014, several Chinese bitcoin exchanges had their bank accounts closed. That spurred concern that government oversight limiting access to fiat currency (traditional, 'real world' currency) could be lead a wave of future regulations to curtail bitcoin's growth. Yet loopholes in the crackdown meant many exchanges stayed in business, and bitcoin's price rose some 25 percent in the 10 days that followed. The U.S. has made localized attempts to regulate specific aspects of bitcoin. New York State requires a "BitLicense" for bitcoin related businesses, with specific rules for employee vetting and identification. Just last month, the IRS won a landmark ruling to gain access to information about 14,000 historic Coinbase accounts, in an attempt to gather back taxes from owners. While some of those instances are more concerning than others, none of it has stopped bitcoin's growth. That reveals the flaws of any future attempts to crack down on bitcoin's use. Bitcoin's intrinsic impossible oversight There are several key components to bitcoin, and its fellow cryptocurrencies, which make them successful as methods of transaction, and stores of value. They're easy to transfer, no middle-man is required, and **they can't be linked to owners who don't want to be identified.** These are all big problems for any government wanting to have a greater say in how they operate.

Bitcoin is not linked to any territory or financial institution. There are tens of popular exchanges, and even if there weren't, all you need are wallets and a network connection to be able to conduct bitcoin transactions. The blockchain it's built upon does not require any one institution to operate it, and indeed is the complete antithesis of such an idea, operating as a public ledger rather than a private one. Without that central location to shut down, any meaningful crackdown would have to be a global endeavor. Even if a country was to somehow prevent bitcoin transactions from taking place within their borders, a simple VPN or Proxy system would let users operate internationally with little issue. If governments could effectively stop a peer to peer network, they would've shut down the illegal practices of torrent websites over a decade ago. Even the success of the hydra-like torrent sites isn't a perfect analogy for bitcoin, though, because cryptocurreny's legal status is far easy to debate. A fairer comparison would be the so-called dark web. Although individual sites, servers and people involved with various activities on there may occasionally be arrested for illegal activities, it would be ridiculous to think any government could regulate the entire network. Trying to ban bitcoin or regulate it in a manner that allows actual oversight would be much the same. **It's impossible on a technical level.** Even tracking individual people who own specific wallets is difficult. While the public blockchain might allow governments or law enforcement to track down certain bitcoins, tying them to a real-world person is very difficult. An owner can hide his or her identity with a VPN, Tor, or even physically move a wallet into cold storage (offline) form, making it invisible to the world. Is there any wonder that bitcoin is being used for money laundering, ransomware and other organized crime tactics? Take the additional step to throw your bitcoins through a tumbler that jumbles up your bitcoins with many others, and then spits them out into another wallet not linked with the original, and the trail quickly goes cold.

Kara Discoll. "Crime and cryptocurrency: How local criminals use bitcoin illegally" Dayton Daily News Dec. 22 2017
http://www.daytondailynews.com/business/crime-and-cryptocurrency-how-local-criminals-use-bitcoin-illegally/ispfn3mqvwWcsPRI1AKC0L/
Law enforcement is concerned that **virtual currencies like bitcoin — already known to be used for illegal transactions, including sex and drug trafficking — will play an even bigger crime role as more investors use it as their preferred payment choice.** Digital or virtual currency, often referred to as cryptocurrency, is not regulated by any central authority or government. Although local entrepreneurs say cryptocurrency has many legitimate uses, the speed and relative secrecy of the transactions have also been known to attract criminals. "Unsavory characters in our society" often utilize cryptocurrency, said Natalie Dunlevey, president of National Processing Solutions, a credit card processing and data security company in Dayton. » RELATED: Bitcoin surges in popularity: Commons questions answered for you Some criminals use bitcoin because users can open a wallet to send and receive bitcoin without giving a name or identity. There is no bank or central authority, like a government, to control this information. Bitcoin also became a popular method for making payments when a computer system is taken over by ransomware. "It is utilized by some very unsavory people in our society and … there is no regulation," Dunlevey said. "The fact that there is none is very worrisome." Bitcoin used in sex trade One of the big worries of law enforcement is the impact crytocurrency is already having on the sex industry. **Tony Talbott, interim executive director of the University of Dayton Human Rights Center, said bitcoin is used to purchase online sex ads on websites like backpage.com.** Backpage.com removed its adult content section from the classified website in early January, citing "unconstitutional government censorship. Backpage.com said the government pressured credit card companies to cease doing business with Backpage. Talbott is not opposed to cryptocurrency, but he said it undeniably plays a role in prostitution and sex trafficking

Kara Discoll. "Crime and cryptocurrency: How local criminals use bitcoin illegally" Dayton Daily News Dec. 22 2017
http://www.daytondailynews.com/business/crime-and-cryptocurrency-how-local-criminals-use-bitcoin-illegally/ispfn3mqvwWcsPRI1AKC0L/
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R/T Debt vs. Equity Financing

1. People aren't buying stocks. Refer to the spec overview.

2. Companies are always going to prefer debt over equity shares for four reasons.

First, the **Harvard Law Review** finds that the government encourages businesses to use debt by allowing them to deduct interest on the debt from corporate income taxes. This gives them an incentive to borrow debt because it is cheaper to take out debt than equity shares. The capital gains tax doesn't change that.

Second, the HBR furthers that debt is much cheaper to finance than equity. Most return on equity is tied up in stock appreciation, which requires a company to grow revenue. Investors typically want at least 10% return back on their equity share, while debt can usually be found for losing significantly less money.

Third, not many people get offers on equity. A company typically has no legal obligation to pay dividends to common shareholders. At the point where shareholders know that they could potentially be losing a lot of money if the company fails, few offers of equity are going to show up.

Fourth, companies never have a vested interest in selling equity because it means that they are losing hold on their own company, and in the long term, they are losing profit. Debt is always more attractive because they retain full control over their company.

3. Impact: they never prove that just getting rid of the capital gains tax will make enough of a difference for businesses to make this shift.

Harvard Business Review. "When Is Debt Good?." *Harvard Business Review*. 15 Jul. 2009. Web. 17 Feb. 2018. <https://hbr.org/2009/07/when-is-debt-good >

First, the government encourages businesses to use debt by allowing them to deduct the interest on the debt from corporate income taxes. With the corporate tax rate at 35% (one of the highest in the world) that deduction is quite enticing. It is not uncommon for a company's cost of debt to be below five percent after considering the tax break associated with interest. **Second, debt is a much cheaper form of financing than equity. It starts with the fact that equity is riskier than debt. Because a company typically has no legal obligation to pay dividends to common shareholders, those shareholders want a certain rate of return. Debt is much less risky for the investor because the firm is legally obligated to pay it. In addition, shareholders (those that provided the equity funding) are the first to lose their investments when a firm goes bankrupt. Finally, much of the return on equity is tied up in stock appreciation, which requires a company to grow revenue, profit and cash flow. An investor typically wants at least a 10% return due to these risks, while debt can usually be found at a lower rate.** These facts make debt a bargain. It would not be rational for a public company to be funded only by equity. It's too inefficient. Debt is a lower cost source of funds and allows a higher return to the equity investors by leveraging their money. So why not finance a business entirely with debt? Because all debt, or even 90% debt, would be too risky to those providing the financing. A business needs to balance the use of debt and equity to keep the average cost of capital at its minimum. We call that the weighed average cost of capital or WACC.

R/T Health Care Cuts Inevitable

UX: No support for cutting ObamaCare. The American people love ObamaCare. A poll by **USA TODAY** find that only 12% of people support the bill that promised to cut the Affordable Care Act. Because any politician that supported a health care cut would not be re-elected, the Republicans must back down.

USA TODAY - 17 ("Poll: Only 12% of Americans support the Senate health care plan," https://www.usatoday.com/story/news/politics/2017/06/28/suffolk-poll-obamacare-trump-senate-health-care-plan/103249346/)

Just 12% of Americans support the Senate Republican health care plan, a new USA TODAY/Suffolk University Poll finds, amid a roiling debate over whether the GOP will deliver on its signature promise to repeal and replace the Affordable Care Act. / **In the survey, taken Saturday through Tuesday, a** 53% **majority say Congress should either leave the law known as Obamacare alone or work to fix its problems while keeping its framework intact.**