

**MAKING WALL STREET PAY
ITS FAIR SHARE: RAISING REVENUE,
STRENGTHENING OUR ECONOMY**

HEARING
BEFORE THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE
ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION

—————
June 12, 2024
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Printed for the use of the Committee on the Budget



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C O N T E N T S

WEDNESDAY, JUNE 12, 2024

OPENING STATEMENTS BY COMMITTEE MEMBERS

	Page
Senator Sheldon Whitehouse, Chairman	1
Prepared Statement	26
Senator Charles E. Grassley	3
Prepared Statement	28

STATEMENTS BY COMMITTEE MEMBERS

Senator Ben Ray Luján	13
Senator Ron Johnson	14
Senator Jeff Merkley	18
Senator Mitt Romney	20
Senator Chris Van Hollen	22

WITNESSES

Dr. Joseph Stiglitz, University Professor of Economics, Columbia University ..	5
Prepared Statement	31
Ms. Sarah Anderson, Global Economy Program Director, Institute for Policy Studies	7
Prepared Statement	39
Hon. Michael Faulkender, Ph.D., Dean's Professor of Finance, University of Maryland	8
Prepared Statement	51

APPENDIX

Responses to post-hearing questions for the Record	
Dr. Stiglitz	57
Hon. Faulkender	60
Chart submitted by Chairman Sheldon Whitehouse	64
Chart submitted by Senator Ron Johnson	65

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WEDNESDAY, JUNE 12, 2024

COMMITTEE ON THE BUDGET,
U.S. SENATE,
Washington, DC.

The Committee met, pursuant to notice, at 10:00 a.m., in the Dirksen Senate Office Building, Hon. Sheldon Whitehouse, Chairman of the Committee, presiding.

Present: Senators Whitehouse, Merkley, Van Hollen, Luján, Grassley, Johnson, Romney, Braun and R. Scott.

Also present: Democratic staff: Dan Dudis, Majority Staff Director; Dan RuBoss, Senior Tax and Economic Advisor and Member Outreach Director; Sion Bell, Tax Policy Advisor.

Republican staff: Chris Conlin, Deputy Staff Director; Krisann Pearce, General Counsel; Nick Wyatt, Professional Staff Director; Ryan Flynn, Budget Analyst.

Witnesses:

The Honorable Michael Faulkender, Ph.D., Dean's Professor of Finance University of Maryland

Dr. Joseph Stiglitz, University Professor of Economics Columbia University

Ms. Sarah Anderson, Global Economy Program Director Institute For Policy Studies

OPENING STATEMENT OF CHAIRMAN WHITEHOUSE ¹

Chairman WHITEHOUSE. Let me call this hearing of the Budget Committee to order.

Ranking Member Grassley, members of the Committee, our witnesses, and guests, welcome.

Next year, a number of provisions from the 2017 Trump tax cuts will expire. Republicans have made clear their plans to add \$4.6 trillion to the deficit by extending these provisions—\$4.6 trillion, according to the latest estimate by the nonpartisan Congressional Budget Office (CBO); \$4.6 trillion to enact another budget-busting windfall for the wealthy.

Democrats are fighting to reduce the deficit, fix our corrupted tax code, so that big corporations and the wealthy pay a fair share in taxes, and invest in an economy that works for everyone—all while ensuring those making less than \$400,000 don't see their taxes go up. That's our work window, you might call it.

¹Prepared statement of Chairman Whitehouse appears in the appendix on page 26.

Today, we'll look at one option: making Wall Street pay a fair share of taxes. In 2008, Wall Street's reckless speculation caused a major economic catastrophe for America. Millions of Americans lost their jobs. More than half of American families lost at least a quarter of their assets. That economic shock piled on debt, and it haunts me as I hear the warnings about climate-related economic shocks ahead of us.

From an economic fairness perspective, Wall Street riches accrue more and more to the already extremely rich. One percent of Americans now own 54 percent, more than half, of U.S.-owned shares in the stock market. Foreign investors own 42 percent of all corporate shares.

Median Chief Executive Officer (CEO) pay of companies in the Standard and Poors (S&P) 500 hit a record \$15.7 million. This chart shows the relative growth in worker wages, productivity, corporate profits, the pay of the top 1 percent, and then, spiking northward CEO pay.²

Worker pay since 1978 has, indeed, grown somewhat, but economic productivity grew at four times the rate of workers' wage growth. The increase in productivity did not flow commensurately through in worker wages. And executive pay has grown more than 18 times faster than the productivity growth.

So, if you do a little math and multiple 4 times the wage growth is productivity growth, and 18 times productivity growth is CEO pay growth, you get 72 times as the rate at which CEO pay growth has exceeded ordinary working wage growth.

Too often, these Wall Street profits come from trickery like stock buybacks that reward CEOs and wealthy shareholders—trickery which surged following the Trump corporate tax cut.

And no surprise, real estate investors got particularly favorable Trump tax treatment. At the 11th hour, real estate investors got led into a provision Republicans had claimed was for small businesses, providing a tax break worth tens of billions for wealthy real estate moguls.

Corporate taxes used to pay a fifth or more of American tax revenue. Now, it's down to 6 percent. Many huge corporations pay zero. Billionaires pay lower tax rates than nurses and plumbers.

Our tax code is corrupted and rotten, turned upside down for special interests. What can we do about it? Fix the carried interest loophole; stop rewards for offshoring jobs; lock in a real corporate minimum tax on foreign profits, so huge corporations can't pay zero. Raise the tax on buybacks passed in the Inflation Reduction Act (IRA); tax companies that pay their CEOs more than 50 times what they pay their average worker; enact a minimum tax, so the richest can't pay lower rates than everyone else. And what I would love to see, use de-corrupting the tax code to make Medicare and Social Security sound and safe as far as the actuarial eye can see.

What's clear, as Congress gears up for the 2025 tax fight is that Trump and his Republican allies plan to blow up the deficit with trillions more in tax cuts for the super-rich and the largest corporations. Democrats, we know, will oppose that giveaway. And there's a lot of conversation to be had in that space.

²Chart submitted by Chairman Whitehouse appears in the appendix on page 64.

I will say it is not enough just to undo the damage of the Trump tax law. Our tax code wasn't fair before the Trump tax law. Instead, what we must finally do is to finally de-corrupt the tax code, so that the wealthy and corporations finally pay a fair share of the support of this great country.

Chairman WHITEHOUSE. With that, I turn to my friend Senator Grassley.

OPENING STATEMENT OF SENATOR GRASSLEY³

Senator GRASSLEY. Thank you, Mr. Chairman.

Initially, I thought that today's hearing related to federal revenues was a nice change of pace, particularly compared to the 19 hearings that we've had in this committee on global warming.

As I said last year at our very first hearing concerning tax issues—so, I'm quoting myself—"Congress should regularly examine tax incentives, just as we should review spending programs to ensure that they're working as intended."

Unfortunately, as is evidenced from today's politically-oriented hearing title, an objective review of our tax laws isn't what this hearing is all about. As a former chair and ranking member of the Finance Committee, I assure you passing legislation to close loopholes or shut down abusive tax avoidance strategies isn't easy. It requires much more than these kinds of hearings or appealing to a never-defined fair share of taxes.

It requires building a bipartisan consensus for action and understanding issues that often can't be boiled down to Wall Street versus Main Street. After all, most Americans, not just the wealthy elite, own stocks, either directly or indirectly, as part of retirement plans. I just learned recently that just in the last 10 years the number of people holding stock has increased from 52 percent to 62 percent in just 10 years.

Now, I fondly recall working with my friend Senator Baucus to identify and enact bipartisan measures to close abusive tax loopholes, regardless of which one of us was Chairman of Finance. We held bipartisan meetings and hearings to better understand the law at issue and take account of both policy and political concerns that might arise.

In contrast, I suspect that today's majority will demagogue complex issues and deride Republicans for protecting Wall Street. Well, I've got this news for you: for my colleagues on the left, the reason many of the proposals we're likely to hear about today aren't law is because of Democrat opposition, not Republican opposition.

Take carried interest as just one example. Concerns about carried interest became prominent in the 2000s, as private equity and hedge funds grew in prominence. In response, Senator Baucus and I called bipartisan hearings to study the issue. However, our review was immediately met with resistance—and not just from those you might expect, because I recall Senator Baucus informing me about strong pushback he received privately from certain Democrats, which, ultimately, led to shelving a proposal that we were actively considering.

³Prepared statement of Senator Grassley appears in the appendix on page 28.

Despite this, Democrats publicly and continuously blast carried interest as a loophole for the rich and blame Republicans for its existence. Yet, when they've had full control of the levers of power, they've repeatedly failed to eliminate it. To date, the only legislative action taken to limit the use of carried interest was enacted by Republicans as part of the 2017 tax law.

At the time, Democrats roundly criticized Republicans for not going far enough on carried interest. Yet, when they had the opportunity to address as part of their so-called Inflation Reduction Act, they failed.

This led to a left-wing publication, Jacobin, writing, quote, "Democrats pretended they were cracking down on private equity moguls. The truth: Dems were actually protecting them, perhaps because private equity firms are major Democratic donors."

Carried interest isn't the only area where the majority says one thing, but legislates another way. The majority regularly decries corporate handouts and large corporations paying low or no tax, but, again, their so-called Inflation Reduction Act proves otherwise.

Included in this partisan tax and spending bill are hundreds of billions of dollars in new or expanded tax incentives for favored green companies, though it also includes novel new tax features, such as direct pay and transferability, that actually make it easier for corporations, banks, and even private equity firms to pay little or no tax.

Thanks to the Inflation Reduction Act and other legislation passed under President Biden and the Democratic majority, corporate tax benefits are now 92 percent higher than they were under President Trump. That's based on an analysis of our own Department of Treasury's, tax expenditure projections.

I'm all for examining perceived loopholes and looking for ways to improve the fairness of our tax code. As past Chairman of the Finance Committee, I actually got important reforms passed into law. But, despite all the handwringing, that's not a path my colleagues on the other side are taking.

Thank you. I look forward to hearing from our witnesses.

Chairman WHITEHOUSE. Thank you, and I look forward to working with you to see to it that the share of America's corporate revenue contributed by corporations gets better than 6 percent, and that corporations that have various revenues are not any longer paying zero percent.

Our first witness, appearing electronically today, is Dr. Joseph Stiglitz, a Nobel Laureate who is currently Professor of Economics at Columbia University. He also is Chief Economist and Senior Fellow at the Roosevelt Institute and the founder and Co-President of the Initiative for Policy Dialogue. He previously served as Senior Vice President and Chief Economist at the World Bank and as a member and Chairman of the Council of Economic Advisors during the Clinton administration.

Next is Ms. Sarah Anderson, who is Director of the Global Economy Project at the Institute for Policy Studies and co-editor of the Institute's website inequality.org. She previously served on the Meltzer Commission, which was tasked with evaluating U.S. policy towards the International Monetary Fund (IMF) and the World Bank.

And finally, Dr. Michael Faulkender is an Associate Dean of Master's Programs and Professor of Finance at the University of Maryland and the Chief Economist at the America First Policy Institute. Mr. Faulkender served as the Assistant Secretary—sorry—Dr. Faulkender served as the Assistant Secretary for Economic Policy at Treasury during the Trump administration.

I welcome all of you and would turn, first, to Dr. Stiglitz, assuming that our electronic connection can be flipped on. There he is.

Please proceed, sir. You have 5 minutes. Your full testimony will be made a matter of record.

**STATEMENT OF DR. JOSEPH STIGLITZ, PROFESSOR OF
ECONOMICS, COLUMBIA UNIVERSITY⁴**

Dr. STIGLITZ. Well, thank you, Chairman Whitehouse, Ranking Member Grassley, and members of the Committee.

It is a real pleasure to be able to discuss future direction of tax policy with you and how the tax code can be more equitable and help create a more dynamic economy that promotes the well-being of all Americans rather than just Wall Street and other corporate giants or the wealthiest individuals.

The tax code has explicitly contributed to inequality and excessive financialization of the economy and distorted the allocation of investment towards fossil fuels and real estate and away from investments that would sustainably raise living standards. U.S. tax policy provides considerable advantages for unproductive activity from Wall Street firms and wealthy investors.

In the few minutes I have, I want to emphasize four directions for reform.

First, we need to close the loopholes and eliminate the special provisions that result in the richest individuals and most profitable firms not paying their fair share of taxes. Today, billionaires have a lower effective tax rate than working class Americans.

It makes no sense that dividends and capital gains should be taxed at lower rates than wages. It is inequitable that someone who is receiving dividends in his beach resort from inherited stocks should pay a fraction of the taxes than that of a nurse who is working long hours to take care of us during the COVID-19 pandemic, or that a hedge fund manager uses the carried interest loophole so she can escape much of the taxes she would otherwise have to pay.

Special tax provisions that only serve corporations and the wealthy have enabled and incentivized shareholder payouts, resulting in companies having fewer resources to invest. They reward companies for devoting their energies to tax avoidance rather than becoming more innovative. Companies that excel in tax avoidance grow at the expense of others.

Secondly, we need to eliminate tax provisions that are directly distortionary. Our tax system provides large subsidies for the fossil fuel industry, which this Committee has previously examined.

Further, the tax code, by providing tremendous payouts for Wall Street, encourages the excessive financialization of the economy, making the economy less stable and increasing inequality.

⁴Prepared statement of Dr. Stiglitz appears in the appendix on page 31.

Third, we should use the tax code to actively create a better economy by curtailing activities that create negative externalities and encouraging those that generate positive externalities.

The tax code should encourage research and development (R&D) and discourage harmful economic behavior, such as unproductive speculation and excessive emissions.

Finally, the tax code should aim more at non-distortionary areas where elasticities are low. For instance, it was a grave mistake not to have imposed a tax on windfall profits oil companies and other energy companies accrued in the months after Russia's invasion of Ukraine. The revenue from such a tax could have helped those who were suffering from these price surges.

Taxing land has little effect on land supply. So, too, for natural resources. Such taxes actually generate societal benefits for investment and speculation in these areas and divert attention away from the more productive investments. The rents generated by such resources should be taxed at higher rates than those imposed on other sources of income. This is true, too, for other forms of rent, most notably, monopoly rents.

These reforms will significantly improve equity and increase the efficiency of our tax system. While there are countless others, I will conclude by proposing 10 tax reforms that would increase taxes on the ultra-rich, reduce today's extreme levels of inequality, and tackle tax avoidance.

First, remove the tax advantage for capital gains over other forms of income and on CEO pay in all its forms.

Secondly, implement a constructive realization policy, taxing assets based on their current value rather than only when the gains are realized.

Thirdly, fully tax unrealized capital gains at death.

Fourth, implement a minimum income tax along the lines of President Biden's proposed billionaire minimum income tax or Brazil's global minimum wealth tax.

Fifth, increase the minimum corporate tax base.

Sixth, eliminate tax subsidies for fossil fuels and implement carbon and other environmental taxes.

Seventh, expand and make permanent subsidies that increase productive economic activity, such as R&D tax credits.

Eighth, a financial transaction tax.

Ninth, a windfall profits tax.

And tenth, reverse preferential treatment for income from land and other natural resources.

We can create a more equitable tax system which generates substantially more revenue and promotes growth. The principles are clear and in many cases their application is straightforward. Vested interests, reflected through the power of money in our politics, are what stand in the way.

Thank you for your time, and I look forward to your questions.

Chairman WHITEHOUSE. Thanks, Professor. I appreciate having you with us.

Ms. Anderson, please proceed.

**STATEMENT OF SARAH ANDERSON, GLOBAL ECONOMY
PROGRAM DIRECTOR, INSTITUTE FOR POLICY STUDIES⁵**

Ms. ANDERSON. Thank you.

I'm Sarah Anderson with the Institute for Policy Studies. And the first time I testified before this committee, it was in 2012, at a time when our economy was still struggling to recover from a financial meltdown that threw millions of Americans out of their jobs and their homes 4 years earlier. I think we can all agree that we never want to go through that again.

And over the years, Congress and regulators have taken some important steps, but financial institutions still extract too much wealth out of the pockets of working families and shovel too much wealth into massive executive bonuses that encourage inappropriate and excessive risk.

With the regional bank failures of last year, we saw that reckless executives can still drive their firms into the ground and walk away with grand fortunes, while relying on taxpayer money to contain the damage.

This hearing is focusing on tax policy as one tool to ensure that our financial institutions contribute to a healthy economy and encourage long-term value creation, instead of short-term speculation to bump up CEO pay.

As you prepare for the 2025 tax debate—which will be a lot of fun, I'm sure you'll agree—I encourage you to consider two questions:

One, would our tax system be more fair if financial firms and executives contributed more to the cost of vital investments?

And two, can we use tax policy to discourage financial activities that increase instability and inequality, and instead, incentivize activities that create long-term value?

I think the answer to both of these questions is yes.

First, big profitable firms are not paying anywhere near the corporate statutory tax rate. Citicorp and Bank of America paid an effective rate of 4 percent during the first 4 years after the 2017 tax cuts. The new 15 percent minimum will help with that, but we need to do more to close loopholes.

Second, most Americans are used to paying sales tax when they go out to eat at a restaurant or they buy a new car, but Wall Street traders pay zero sales tax on millions of dollars in stocks and derivatives. And that's encouraged the explosion of high-frequency trading that drains profits from ordinary investors, while adding no real value to our economy.

Third, financial executives reap huge windfalls from our tax code's bias in favor of income from investments over income from work. We have billionaires paying a lower tax rate than firefighters or teachers. And investment fund managers still get to pay the lower capital gains rate on their carried interest compensation.

Fourth, the Tax Cuts and Jobs Act (TCJA) gave big real estate investors yet another tax break through the 20 percent pass-through deduction meant for small businesses.

Clearly, the financial sector can and should pay more.

⁵Prepared statement of Ms. Anderson appears in the appendix on page 39.

Now, I'm going to share some thoughts on how to use tax policy to both raise additional revenue and encourage long-term value over short-term speculation and excessive CEO pay. I like to call these "two-fers."

My first two-fer is a tax increase on companies that pay their CEO more than 50 times what they pay their median worker. A recent poll showed overwhelming support for this, including among 77 percent of independents and 71 percent of Republicans. It would give companies a choice. They could either narrow their pay gaps, which would probably make them more profitable, because extreme pay gaps tend to undermine employee morale and productivity, or two, they could choose to pay a higher Internal Revenue Service (IRS) bill. It would be their choice.

My second tax two-fer is a financial transaction tax to encourage long-term investment, while generating new revenue. The target of this would be the highflyers in the financial casino, while the cost to pension funds and ordinary stock-and-bond holders would be less than the typical portfolio management fee.

My final two-fer is an increase in the stock buyback tax. Whether you were for or against the 2017 tax cuts, I think we should all be angry that corporations took their tax windfalls and spent a trillion dollars of it in 2018 on stock buybacks instead of on worker wages or innovation.

For too long, Wall Street has wielded excessive power to shape our tax code so their firms and executives can avoid paying their fair share of taxes, while continuing activities and practices that benefit the few while putting the rest of us at risk. The 2025 tax debate is an opportunity to fix these problems as part of a broader overhaul of our tax code to make our country stronger and more equitable.

Thank you. I look forward to your questions.

Chairman WHITEHOUSE. Thank you. And I look forward to that broader overhaul.

Dr. Faulkender, please proceed.

**STATEMENT OF THE HONORABLE MICHAEL FAULKENDER,
PH.D., DEAN'S PROFESSOR OF FINANCE, UNIVERSITY OF
MARYLAND⁶**

Dr. FAULKENDER. Chairman Whitehouse, Ranking Member Grassley, senators on the Committee, thank you for the opportunity to testify today on the enormous benefits that the American people realized from having a pro-growth tax code.

I have been a finance professor for more than 20 years and had the privilege of serving as the Assistant Secretary for Economic Policy at the Department of Treasury. In that role, I worked on the economic projections included with the administration's budget submission, including research on historic prosperity that was generated following the enactment of the Tax Cuts and Jobs Act, or TCJA.

Today, the American people are suffering from the harmful effects of inflation and declining real wages. As a result of excessive federal spending and onerous regulation, the American people have

⁶Prepared statement of Dr. Faulkender appears in the appendix on page 51.

struggled with average price increases exceeding 19 percent since President Biden took office, while average weekly earnings have risen just 14.5 percent. For the average household, their hard work buys \$2,300 less today than it did just 4 years ago.

Today's hearing is about finding new taxes, such as higher personal or corporate taxes and a financial transactions tax, that would further reduce Americans' wages, savings, and investment income—all to fund larger government.

Let's, first, set the facts straight on taxes. In fiscal year 2022, federal receipts were the equivalent of 19 percent of aggregate economic output of our nation, the second highest since World War II. Between TCJA enactment and fiscal year 2022, corporate income tax payments rose 43 percent; personal income tax collections rose 66 percent—well faster than inflation.

We do not have a revenue problem; we have a spending problem. According to CBO, spending for the next 10 years will continue to be 23 to 24 percent of national output—well above the 20.3 percent that it averaged for the 50 years prior to the pandemic. While a national emergency may necessitate temporarily elevated spending, the national emergency is long over.

In terms of who pays taxes, in the latest year for which data has been made publicly available, the top 1 percent of households earned 26 percent of income and paid 46 percent of total federal income taxes—well more than their share.

The United States has one of the most progressive income tax codes in the developed world and the Tax Cuts and Jobs Act made it more progressive.

On the corporate side, TCJA aligned the corporate tax rate with what corporations were paying in much of the rest of the world. Through provisions like the global intangible low-taxed income (GILTI) and the base erosion and anti-abuse tax (BEAT), we further incentivized economic activity to take place and be recognized here. The result was that capital investment accelerated; more than \$1.7 trillion of foreign capital has been repatriated, and tax inversions have, essentially, ended.

While one may think that higher tax rates would generate higher tax receipts for the government, the Laffer curve explains that higher rates deter economic activity. A higher tax rate paid on less income can result in less income for the government.

Additionally, while some of the changes in corporate tax rates pass through to investors, higher corporate taxes also result in higher prices for consumers and lower wages for working families. This is consistent with the economic prosperity our nation realized immediately following enactment of TCJA. Inflation-adjusted incomes jumped a record \$4,400 in 2019 compared to falling \$2,080 since 2020.

Some are proposing a wealth tax to punish successful entrepreneurs. Taxing unrealized capital gains would drive away long-term venture capital investments in leading industries like life-saving biotechnology and low-cost, reliable energy, where cashflows often may not be realized for 10 years.

Likewise, some are looking to enact a financial transaction tax, which is, essentially, a fee on trading that will get passed along to the American people. Sweden enacted a financial transaction tax in

1984, after which trading volume declined precipitously, and repealed it in 1991.

Higher taxes on top of the growing regulatory burden coming from the U.S. Securities and Exchange Commission (SEC) would just accelerate the movement of innovation offshore and further degrade our position as the financial capital of the world.

Yet, many of the same people calling for higher corporate and personal income tax rates are advocating that we repeal the cap on state and local income tax deductions (SALT). According to a 2021 study by the Tax Policy Center, 70 percent of the benefit of repealing the \$10,000 cap on SALT would go to those making \$500,000 or more. It's hard to think of a more regressive tax policy proposal.

Our nation needs to address the staggering budget deficits that have put us on an unsustainable fiscal path. Rather than taking even more money out of the productive side of our economy, the American people would benefit from repealing the trillion dollars of green spending in the IRA; stop the Biden administration's illegal student loan forgiveness; return non-defense discretionary spending to pre-pandemic levels, and reverse the regulatory burden that has caused inflation.

Thank you for including me in today's discussion, and I look forward to your questions.

Chairman WHITEHOUSE. Thank you, Doctor.

Dr. Stiglitz, let me begin with a few more broad and general questions for you.

First, does economic inequality itself have economic consequences and what happens to those economic consequences as economic inequality worsens?

Dr. STIGLITZ. That's a great question.

It used to be thought that there was a tradeoff. Arthur Okun, who was the Chairman of the Council of Economic Advisors under President Johnson wrote a book called *The Big Tradeoff*. And the argument then was that, if you want to reduce inequality, you would have to accept lower growth.

But that thinking has totally changed. And now, we know that countries face a high price for inequality. The IMF studies have shown—and IMF is not a left-wing institution—have shown that that is the case. It was the central piece of my book called *The Price of Inequality*.

One of the reasons for that is, as you get more inequality, the adverse effects get worse and we've had an increase in inequality. And the manner, the ways in which inequality has increased related to monopolization/financialization also have adverse effects on the economy.

Chairman WHITEHOUSE. In the context of the harms that are driven by economic inequality, could you elaborate a bit on the extent to which our tax code actually contributes to economic inequality, and hence, the economic evils that follow?

Dr. STIGLITZ. It contributes in several different ways that have already been highlighted. One of them is that it leads to increased financialization of the economy. The financial sector, in turn, has engaged in activities like predatory lending. But, even apart from that, just increased debt leads to greater instability, and that insta-

bility, the brunt of that, is borne by ordinary Americans. So, it increases inequality.

Our tax code encourages real estate speculation; provides preferential benefits for CEOs. We've already had a discussion of that. It taxes the very, very rich at a lower rate than it does working Americans.

So, these are just a few of the ways in which our tax code actually exacerbates inequalities and creates structures which promote inequality.

Chairman WHITEHOUSE. And if we were to look at efforts to take advantage of those tax code failings, and perhaps consider tax avoidance as an industry, how would you rank the size of the tax avoidance industry and its positive or negative contributions to society and the economy?

Dr. STIGLITZ. The tax avoidance industry has become a major global industry. It's partly a consequence of globalization. Globalization has expanded the scope for tax avoidance activities and given an advantage to individuals and multinationals who operate in many countries because they can take advantage of these tax avoidance activities. They can afford the best tax lawyers who excel at tax avoidance.

But one of the central points of my remarks, my initial remarks, was that those tax avoidance activities not only are taking away directly—that is to say, those tax lawyers are bright people. They could have been contributing to our economy, and instead, they're trying to take money away from the government. But they distort our economy.

We have investments in real estate; we have investments in fossil fuel; we have investments in the financial sector that would not be there if our tax system hadn't actually encouraged those kinds of investment.

Chairman WHITEHOUSE. Thanks very much, Professor.

I turn now to my distinguished ranking member, Senator Grassley.

Senator GRASSLEY. My conversation is going to be with Dr. Faulkender.

My democrat colleagues talk a big game about making Wall Street pay their fair share. Yet, many of the proposals we've heard discussed today—from taxing carried interest the same as ordinary income to imposing a financial transactions tax—these have all been around for years, if not decades. Yet, Democrats chose not to enact these proposals, even when they had a 60-vote majority during the Obama administration, or the last Congress when they ran through two reconciliation bills on purely a partisan basis.

Isn't it true that many of the tax proposals that we've heard about today haven't been enacted because of the Democrats' own failure to enact when they had that opportunity?

Dr. FAULKENDER. Yes, Senator, they could have done it through reconciliation and they did not.

Senator GRASSLEY. Okay. Won't the policies Democrats chose to enact as part of their misnamed Inflation Reduction Act overwhelmingly benefit large corporations, as well as banks and even private equity firms?

Dr. FAULKENDER. Yes. There are a number of tax credit provisions and spending in the IRA that are going to go towards large industries and private equity firms, yes.

Senator GRASSLEY. And as we've heard today, many on the left argue that unsustainable fiscal outlook can be solved through tax hikes on the wealthy and large corporations and Wall Street. As a result, the middle class has nothing to worry about, according to them.

However, at the Budget Committee hearing last year, the majority witness, Bruce Bartlett, let slip the truth by saying this. Quote: "I think we should raise taxes on the wealthy, but we're going to have to eventually raise taxes on the middle class."

Isn't it true that this tax-and-spend agenda will, ultimately, require tax hikes on the middle class?

Dr. FAULKENDER. At these levels of spending, there is nowhere enough wealth amongst the top 1 percent or the wealthy to cover all of those expenses and bring the budget into long-term fiscal sustainability.

Senator GRASSLEY. The majority witnesses discussed imposing a financial transaction tax, which is, effectively, an excise tax on every stock and bond transaction. Given that most Americans own stock, and that more than two-thirds of the families participate in retirement plans, wouldn't a financial transaction tax hurt savers, regardless of their income level?

Dr. FAULKENDER. Yes. They will get passed on to investors and savers, including investments through 401(k) plans.

Senator GRASSLEY. Proponents of a financial transaction tax argue it would promote market stability. Has that been the experience of countries who have implemented such a tax?

Dr. FAULKENDER. It is not, Senator. So, when Sweden implemented one, they saw reduction in trading volume, which is generally bad for market stability. You want to maintain liquidity through trading.

Senator GRASSLEY. Okay. As you discussed in your testimony, Americans have been ravaged by high inflation, and the other side continues to propose tax increase after tax increase. Since the 2020 campaign, President Biden has pledged not to raise taxes on Americans earning less than \$400,000. However, because of inflation, according to the Bureau of Labor Statistics, it takes \$480,000 today to have the same buying power of \$400,000 in the summer of 2020. Yet, President Biden hasn't updated his \$400,000 pledge.

Isn't this another example of how President Biden's tax-and-spending agenda is a broken promise?

Dr. FAULKENDER. It is because a lot of these tax provisions are not adjusted for inflation. Some in the tax code are, but this \$400,000 has not, which means that over time it will hit the upper middle class.

Senator GRASSLEY. Yes. And in my few minutes, I'm going to make this comment about people talking about raising the marginal tax rate.

I used to have a chart—and I don't suppose I've shown it for 10 or 15 years—but you can go back to World War II, when we had 93 percent marginal tax rates, and you can go all the way through

the 1960s, or even up until the 1980s, when it was still 70 percent, I believe, or it became 70 percent.

But if you looked at the income coming into the public, it was pretty steady for that whole 30 or 40 years, which tells me that you can raise the marginal tax rate as high as you want to, but people that have the ability to make decisions that they're going to work for the government or not work for the government are deciding they're only going to pay "X" number of dollars, and you're not going to get another penny out of me, regardless of how high the marginal tax rate is, because they've got the ability to hire the people to make tax advantage. So, they get their taxes down to where they're willing to work maybe for 40 percent, like today, 42 percent that they pay in.

It's just ridiculous to think you can raise marginal tax rates to 93 percent and you're going to get people stupid enough to pay 93 percent of their income in taxes, so they're working for nothing.

I give up. [Laughter.]

Chairman WHITEHOUSE. No, you don't. You're going to be always fighting. You just yield.

Senator Luján, followed by Senator Johnson.

STATEMENT OF SENATOR LUJÁN

Senator LUJÁN. Thank you, Mr. Chairman.

Dr. Stiglitz, I have some questions for you today.

I've been hearing a lot about buy, borrow, and die. Can you explain what "buy, borrow, and die" is, Dr. Stiglitz?

Dr. STIGLITZ. What that refers to is the way so many of the share buybacks work. What you do is you borrow money from the market to finance your buybacks. You get deductions for your interest on your borrowing. The share buybacks are taxed at favorable rates, only the increment over what you purchased.

And meanwhile—and this is probably the worst part—because you reduce the number of shares of the company, the value, the price per share goes up, and the CEO gets a big bonus for doing nothing other than financial wizardry. It's nothing real. It doesn't help create jobs. It doesn't help the economy. In fact, it makes the economy worse because the company is now suffering from an additional liability from the borrowing.

Senator LUJÁN. And, Dr. Stiglitz, in preparing for this hearing, of several studies that I found, the one I'm going to point to is some of the experts at Georgetown found that the wealthy avoid taxes for 75 percent of their investment income. Why is it that the wealthy engage in this tax avoidance strategy?

Dr. STIGLITZ. Well, it's because our tax code gives them the opportunity to do it. You know, over the years, I've seen the very rich engage, particularly through hedge funds, in amazing strategies to avoid and in some cases evade taxes. The worst get caught and have to pay back. But our tax code is just rife with these provisions that provide for advantageous treatment—if you have smart tax lawyers.

Senator LUJÁN. And so, Dr. Stiglitz, I'm trying to better understand tax policies that have been adopted in recent memory; namely, under the previous President. There are estimates that have come out associated with what is a benefit to the wealthy from a

stepped-up basis perspective. And the Joint Commission on Taxation (JCT) estimated that the stepped-up basis at death will cost the United States \$299.3 billion from 2022 to 2026, or about \$60 billion a year. And so, I just want to take a moment to put that into perspective.

I'm one of, I think, two senators right now that went to pre-K. I thought everyone went to Head Start. I didn't know that I had to qualify for the program. That's a joke.

What I understand about universal pre-K is that it costs about \$14 billion a year. So again, \$299 billion is the number I referred to earlier. The Affordable Connectivity Program that provides affordable broadband to over 23 million low-income Americans costs \$11 billion a year.

The United States recently passed the bipartisan Radiation Exposure Compensation Reauthorization Act (RECA) to deliver long-overdue justice to those left out of the original RECA program, passed in 1990 and amended in 2000. And the New Mexicans who had the first nuclear bomb dropped in their backyards were left out. The program is supposed to provide compensation to downwinders and uranium workers, but it expired on Monday. This just goes to show another area where investment from America could make a positive difference in the lives of so many that injustice has been the only thing that they have experienced.

Now, Dr. Stiglitz, how does stepped-up basis and buy/borrow impact the ability of the government to fund critical programs, such as education, health care, housing, and infrastructure development?

Dr. STIGLITZ. The purpose of stepped-up basis, it's a mechanism by which rich people totally avoid paying taxes on the income that they've accrued, the capital gains that they've accrued for years, in some cases decades. So, while ordinary people are paying taxes year after year, if you get your income in the form of capital gains, you can postpone it, and then, with the stepped-up basis, you never pay for it.

One of the things that I argued in my introductory remarks was that constructive utilization, where you force individuals to pay year by year on their capital gains as they accrue would be an important step forward. But if you don't do that, it's absolutely imperative that you have the stepped-up basis—and as you pointed out, the revenues lost are very large and could be used in so many constructive ways.

You gave a couple of examples; there are more we could talk about—enabling more students to go to college. Tuition has gone up enormously. So, there are a very large number of very productive investments yielding very high returns that would be able to be financed by the revenue you could generate from those two proposals that you talked about.

Senator LUJÁN. Thank you. Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Senator Johnson, followed by Senator Merkley.

STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman.

We're trying to scramble to get the chart, my own version of the chart that Senator Grassley was talking about. Hopefully, we can get it up here before I am done.

I'll just ask all the witnesses, anybody want to defend the current tax code? Anybody think it's a great code?

[No response.]

Senator JOHNSON. Okay. Silence. It's way too complex, right? So, when you have something really complex, that's something that can be taken advantage of, correct? So, shouldn't our efforts be, rather than reforming the tax code and trying to continue to socially and economically engineer through the tax code, wouldn't it make a lot more sense to simplify and rationalize the tax code? Dr. Faulkender.

Dr. FAULKENDER. It would, indeed. And that's one of the things we tried to do in the Tax Cuts and Jobs Act was, by doubling the standard deduction and removing some of the deductions for other items, it was to encourage more people—to encourage fewer people to itemize and more people to take the standard deduction, thereby, making it less complex. But, unfortunately, people, then, still calculated both ways, and we didn't succeed in doing that.

Senator JOHNSON. Right, it's complex because you have all these special interests from all over, from all ends of the spectrum, coming in here and carving out a little special deal for themselves. So, it ends up being incredibly complex.

So, we just put this chart up here.⁷ This is what Senator Grassley was talking about. I mean, this is the futility of trying to punish individuals, you know, trying to punish their success. It just doesn't work. People aren't that stupid. They're willing to hand over so much to the government and no more.

Ms. Anderson, I want to ask you, what percent of an American's income, of a dollar of income, should the Federal Government be able to extract? What's the maximum tax rate? You know, I'm just talking about the Federal Government now. What do you think?

Ms. ANDERSON. I'd be happy to give you my preferred top marginal tax rate—

Senator JOHNSON. What is it?

Ms. ANDERSON [continuing]. Once you close the loopholes that make up our current top tax rate.

Senator JOHNSON. Okay. Okay, let's call it "the effective tax rate."

Ms. ANDERSON. No—

Senator JOHNSON. What is the maximum amount anybody ought to pay after all the deductions and that type of thing?

Ms. ANDERSON. Since people are not paying that at the top level, we have billionaires paying an effective income 2 percent rate—

Senator JOHNSON. I need to know; what is the maximum—just give me, what do you think is the most anybody should pay out of a dollar of income?

Ms. ANDERSON. Yes. It's not about, that chart is not about futility.

Senator JOHNSON. Yes, okay, I'm not getting—

Ms. ANDERSON. That chart is about loopholes—

⁷ Chart submitted by Senator Johnson appears in the appendix on page 65.

Senator JOHNSON. Dr. Stiglitz—

Ms. ANDERSON [continuing]. That Members of Congress have allowed in the tax code.

Senator JOHNSON. I've got limited time. Dr. Stiglitz, what do you think the maximum amount anybody ought to pay out of a dollar of income?

Dr. STIGLITZ. I think you begin by asking the question, how do you close the loopholes and how do you make sure—

Senator JOHNSON. Guys, this is, it's a very simple question. What is the maximum amount any American ought to pay out of a dollar of income? It's a very simple question. Again, eliminate all the loopholes, but, I mean, the effective rate, what is the maximum amount somebody ought to pay?

Dr. STIGLITZ. Well, again, one of the things I said is, if you derive your money from land speculation, you should pay a very, very high tax rate.

Senator JOHNSON. So, first of all, income—

Dr. STIGLITZ. And it's appropriate—

Senator JOHNSON. First of all, let me say, to simplify the tax code, income should be income. There is a rationale for a lower tax on capital gains because you're taxing inflation there, the inflationary gain. So, you could index the inflationary gain, and then, tax it at the individual rate.

Here was my proposal in 2017–2018. I call it a true Warren Buffett tax. Tax all business income at the ownership level. Okay? Ninety-five percent of American businesses are pass-throughs. It's entirely possible. I talked to Warren Buffett about this, talked to his shareholder services people. You allocate income and you tax income every year, allocate it and tax it at the ownership level. You could have corporations do a backup withholding.

All kinds of advantages to that. That plan right now, parts of it are being scored by JCT. Hopefully, the Chairman of both this Committee and the Finance Committee—I know Chairman Wyden is interested in it.

So again, that would be a simple system. And by the way, it would be able to—you wouldn't have that locking up of unrealized profit in C corps. This is, again—what's going to happen in 2026 is a gross distortion, and puts small companies, 95 percent of American businesses, at a huge disadvantage with the big C corps. So, we need to address that.

But, Dr. Faulkender, comment on what I'm talking about there. And I don't think you've ever seen that plan.

Dr. FAULKENDER. No. I have heard you talk about it,

But I haven't yet seen the details, and I look forward to seeing the score come out. But, yes, if we could do everything as a pass-through, you would eliminate some of the distortions that are created by changing your tax structure—all to have a lower rate, either as a C corp or an S corp.

What we ought to do is tax all income uniformly and stop saying, if government—if you spend money the way government wants you to, you have a lower tax rate than if you don't do it the way—than if you spend your money the way you want to.

Senator JOHNSON. Well, you would agree we do a terrible job social and economically engineering through the tax code. So, stop doing it.

Dr. FAULKENDER. That's right.

Senator JOHNSON. Use the tax code to collect the revenue the government needs as simply and fairly as possible. That ought to be our effort. Rather than talk about these complex things about a billionaire tax, let's simplify this thing. Let's rationalize this. That's what I'm going to try to push for in the next couple of years.

Dr. FAULKENDER. Yes. Lower the rates; broaden the base. Stop picking and choosing winners and losers through the tax code.

Senator JOHNSON. By the way, one principle that we should abide by is wherewithal to pay. So, trying to tax unrealizable capital gains would be disastrous. Okay?

But again, I hope the Chairman takes a look at my tax plan because it makes a lot of sense.

Chairman WHITEHOUSE. I'm sympathetic to the Senator's concerns and I appreciate the enthusiasm with which he pursues them.

I do think that, when it comes to the question of what the tax rate should be on the dollar of income, it matters whether it's the first dollar or the last dollar, and it matters whether it's the 10 thousandth dollar or the 10 millionth dollar of income for that individual.

Senator JOHNSON. But you're complicating the question. Again, it's just like overall—

Chairman WHITEHOUSE. Yes, but it matters.

Senator JOHNSON [continuing]. The effective tax rate. You know, what should be the maximum? Do you want to tell me what you think your maximum should be?

Chairman WHITEHOUSE. I don't, because you've got to know what the dollar is. If it's the last dollar and it's the—

Senator ROMNEY. Well, say it's a person who has earned a billion dollars. Say someone earned a billion dollars. The last dollar, how much should we tax?

Chairman WHITEHOUSE. We don't even know what exists. I think the tax—

Senator ROMNEY. How much should we—what's the percent? What percent? The last dollar of a billion. So now, we're giving you—

Chairman WHITEHOUSE. I would say way, way above 50 percent.

Senator ROMNEY. But what?

Chairman WHITEHOUSE. Because your billionaire doesn't even know that dollar exists.

Senator ROMNEY. So, what? So, what's your—

Chairman WHITEHOUSE. It would be very different of somebody's making \$30,000 a year.

Senator ROMNEY. You asked a question: which dollar is it? It's a billion. Someone earned \$1 billion one year.

Chairman WHITEHOUSE. Well over half.

Senator ROMNEY. Bill Gates earned \$1 billion. What should we tax in the last dollar?

Chairman WHITEHOUSE. Well over half.

Senator JOHNSON. How about \$1 million then, as long as you're—

[Laughter.]

Senator ROMNEY. Like about 70 percent? Seventy percent?

Chairman WHITEHOUSE. We're into Senator Merkley's time.

[Laughter.]

Chairman WHITEHOUSE. Senator Merkley.

STATEMENT OF SENATOR MERKLEY

Senator MERKLEY. Thank you, Mr. Chairman.

And this issue of our tax code is fundamental because we do so many different things with it. But one of the things that it certainly does is accentuate the wealth of the wealthiest individuals.

My father, the mechanic, would ask the question, why is it that working people who earn their income by the sweat of their brow pay a higher marginal rate than do millionaires getting a return on their already existing investments? And I think it's an important question to continue to ask.

But I wanted to turn, Mr. Stiglitz—and good to have you here—to the comment that President Trump made recently when he told some of the country's wealthiest political donors they should increase their donations from \$2 to \$3 million to \$25 or to \$50 million in support of his election, because his tax policies would benefit them far more than would Biden's tax policies.

And so, I want to know, to what degree, Mr. Stiglitz, would retaining some of the cuts for the wealthiest individuals and the corporations from the previous Trump tax cuts, or increasing those cuts, how would that benefit ordinary Americans?

Dr. STIGLITZ. It wouldn't and it actually would harm the economy. You know, I was asked in the beginning about the relationship between economic performance and inequality. And I said the evidence now is in. It's very strong that a more unequal society performs better, grows more poorly—a more unequal society performs more poorly, grows more slowly, and greater financialization is bad for economic stability and our tax code encourages that. Our tax code encourages more speculation and that's bad for the ordinary citizen.

So, the extension of the kinds of policies that President Trump enacted would, I believe, be not only bad for the typical American, but be bad for our overall economy. Remember the tax cuts that were enacted in 2017 went overwhelmingly to those at the very, very top.

Senator MERKLEY. Mr. Stiglitz, I want to shift to—I just had a series of townhalls this weekend. I have a townhall in every county every year. I was in towns that, basically, I lost these counties by 30 to 50 percent. So, they are not what you would call my base electorate.

And the issue that came up most over anything else was the high cost of housing. So, this is very much a factor in urban America; it's a factor in rural America. People are watching the dream of homeownership disappear before their eyes, for their children.

And we have a number of programs for more affordable rentals, more affordable first-time homeownership. But one of the things

that I've been directing some attention to is the growing role of hedge funds in buying up American single-family housing.

What we saw in 2009, after the foreclosure crisis, is the government sold houses in groups of a thousand or more. And no ordinary American buys a thousand houses. Hedge funds, where the investment of millionaires and billionaires exists, buys those houses. They were being sold at 50 percent discounts.

I suggested they make them available to ordinary families. I took this up with the Treasury Secretary. As a brand-new Senator, I took it up with the President to say, "Make them available for 3 to 6 months to ordinary families." And basically, the response was too complicated, too many homes to dispose of, too worried about vandalism, frozen pipes, so on and so forth.

But the hedge funds from 2009 forward have now recognized that there's this enormous slice of the American pie that was the major wealth-builder for middle class Americans, and the hedge funds want to take that off the plate of middle-class Americans and put it on their plate.

It's estimated that, by the end of this decade, the hedge funds will own some 40 percent of the single-family rental houses in America. And right now, we see in some markets the hedge funds buying some 40 percent of the single-family houses available.

In Oregon, we hear the vignettes of people saying, "my realtor told me I was outbid by an all-cash, no-inspection offer." Who makes all-cash, no-inspection offers?

Is there any logic to saying that we should keep homeownership, single-family homeownership, on the plate of middle class Americans? And I've specifically proposed that hedge funds cannot buy any more single-family housing; that they have to sell what they have over a 10-year period, 10 percent of it, their housing stock, each year.

Is there a reasonable argument to say that, in terms of equity, under how we approach the opportunity and the stake in our society for ordinary working Americans, hedge funds shouldn't be in the single-family housing market?

Dr. STIGLITZ. Well, first, let me say that I do think homeownership is very important. It's important for community stability. It's important for engagement in all kinds of education, local schools, and so forth.

Secondly, let me say that the tax code has given benefits to the hedge funds, and the tax code has broadly in the real estate sector contributed to real estate speculation, land speculation, which increases the price of land. It makes housing, more generally, less affordable.

The third thing is, in some communities there is real concern that they own a sufficient fraction of the housing, that you no longer have a competitive housing market. And that allows them to raise prices, to take advantages of the tax code and of market power. They're in there not to make people happier. They're in there to make more money.

And it's become an attractive venue of money. And when you think they're making money, who is the money coming from? It's coming from ordinary Americans. It's just a transfer.

And so, you're actually right, Senator, that it's a transfer which not only increases inequality, but I think undermines the American dream, undermines our communities, and undermines the opportunity for the typical American to make his way up in the world.

Senator MERKLEY. And I'll just close—I know I'm over time—so, I'll just close with this comment: that the tax code very much plays on why this is such a profitable enterprise. Untaxed appreciation and artifice of depreciation, which is just a tax shelter, and untaxed interest is for the funds to actually leverage their funds to borrow more and not pay taxes on that interest. So, there's several features that really help drive the profitability for hedge funds.

Chairman WHITEHOUSE. Senator Romney.

Dr. STIGLITZ. You're absolutely right.

Chairman WHITEHOUSE. Senator Romney.

STATEMENT OF SENATOR ROMNEY

Senator ROMNEY. Astonishing. I'm delighted that we're talking about things related to our deficit. We should have been doing this for a long time and I appreciate the fact that we are.

Recognize, of course, that this is not about gathering information and making decisions. We've never met as a Committee on these things privately. You're seeing our full discussion of the tax code right now. We're here to perform for an audience, but the joke is on us—because, basically, no one's watching, right? This is not something the American people are tuned into. That doesn't mean it's not important.

I will note that "things"—it's not my quote, but it comes from another famous economist—"things that can't go on forever won't." And continuing to spend massively more than we take in, and adding every year massively to the national debt, will not go on forever. And unless we deal with it in a constructive way, we will have a financial catastrophe at some point. I can't tell you when it is. Hopefully, we'll deal with this issue and don't have the catastrophe, but that's going to be a challenge for us.

I would note it's not just spending. It is both spending and taxing. You have to do both in order to reach balance. If somehow we were able to magically stop all spending other than military that we vote on every year, if we eliminated all of government, and kept in place, of course, the entitlements that are mandatory, but all the rest of the government we got rid of, we would still have a deficit. So, we're going to have to look both at spending and taxing.

I keep hearing this idea that there are corporations that are very profitable that pay no tax. Now, I can't figure out how that is. Because if they're following the government tax law that we've written, and that Congress has approved and the President signed, and they have a profit, they have to pay a tax on that profit. Is that right, Ms. Anderson?

Ms. ANDERSON. There are many tax avoidance strategies from tax havens—

Senator ROMNEY. No, no, no, no, no, no. No, no, no, no. Answer the question. If a company follows government tax accounting policies passed by Congress and the President, and shows at the end of the year, let's say, a million-dollar profit, they have to pay a tax on that profit of 21 percent, is that right?

Ms. ANDERSON. Unless they're getting other tax credits that balance that out. But—

Senator ROMNEY. Well, but if they have other tax credits, that means that's following the government accounting—the things we passed in Congress.

Ms. ANDERSON. Yes.

Senator ROMNEY. My point is this, which is, companies that are profitable under the law that we've passed are paying full taxes. So, if you think there are companies out there that are massively profitable that aren't paying taxes, that's just not true. What it says is—

Ms. ANDERSON. I wish there was more transparency on how they're getting away with that.

Senator ROMNEY. No, excuse me. I'm speaking now. It's not your—it's not your turn.

So, what that says is, what that says is, if we don't like the taxes companies are paying, then let's be honest about it and change the federal law. But companies are paying taxes as we have passed them.

What's being said is dishonest when people say, "oh, all these companies are earning all this money." What they're referring to—I've tried to ask, "what are you talking about?" They say, "oh, we're talking about Wall Street accounting, not government accounting."

You see, companies are paying full taxes under government accounting, but, then, the politicians look at Wall Street accounting and say, "oh, they're making a profit there. They should pay a tax on that." That's a different matter. So, let's be honest on how we deal with that issue.

CEO pay, as a ratio, the idea, you indicated we should pay or charge CEOs based upon the ratio of their pay to their lower employee wages. Do you know what companies would do in that circumstance? Think about unintended consequences. That is, companies would separate their employees between two different companies, and low-income people would be part of one company and higher-income people would be part of the other. All right?

You have to recognize that the kinds of things you're suggesting have massive unintended consequences. The idea of taxing people based upon their assets, which Dr. Stiglitz suggested we ought to do, based on their net worth—not their income, but their net worth—do you know what that would do? France found out. They tried that. They had 60,000 multimillionaires leave the country over the course of about a decade. They stopped doing it.

There's no other country in the world that taxes people based on their assets because they realize people flee when that happens, move assets other places. Unintended consequences.

Look, we're going to have to do things that do raise additional revenue and we're going to have to do things that cut spending. We've got to do both, but we've got to be honest with each other if we're going to do that in a reasonable and fair way.

And I would note, just as a small subpoint, the idea of eliminating the tax-free stepped-up basis in death is one thing we ought to look at, and it probably makes sense. All right?

I do think that, when we look at taxes, we have to say which things can we adjust that won't hurt the growth of the economy.

Because most of what's been described today is, in my opinion, going to be highly detrimental to the growth of the economy and the capacity of America to create jobs and lead the world.

Don't forget, our economy is leading the world. Don't broke what ain't—or don't try and fix and break what's actually working pretty well. And let's fix things that we can to finally rein in the excessive spending and deficits that we're seeing.

Mr. Chairman.

Chairman WHITEHOUSE. Thank you, Senator Romney.

Senator VAN HOLLEN.

STATEMENT OF SENATOR VAN HOLLEN

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Always good to listen to our colleagues like Senator Romney. I would just make a distinction between those individuals and corporations that are not paying their taxes that are due and owing versus those that are making payments compliant with the law. And in those areas, as you said, Senator Romney, some of us think that the current law does need to be changed to create a more sort of productive economy and not reward excessive risk-taking by CEOs, for example.

But, just to be clear, the funding that was requested for the IRS, which House Republicans, anyway, have tried to zero-out over time, is designed to make sure that people pay the taxes that are already due and owing, and it amounts to huge sums of money every year, according to many economists.

So, thank you, Mr. Chairman, for holding this hearing and all of the witnesses for covering some of these issues.

I know the carried interest loophole has been covered.

I think if you look at our current tax system, it's riddled with provisions that need to be revised and reformed, both to sort of encourage more productive investment, but also to raise funds that are important to invest in things like education, health care, and our people.

Ms. Anderson, you mentioned in your testimony the effort some of us have been pursuing with regard to Section 956 of what was back in the day the Wall Street Reform Act. One of the things we saw during the 2008 financial crisis was how big firms paid out tens of millions in bonuses to CEOs, in many cases that were from the same firms that U.S. taxpayers ended up bailing out, which is why many of us have been working to try to ensure that federal agencies implement Section 956. The Federal Reserve has been a laggard here.

Could you just speak to the importance of doing that and how many of these bonus systems simply reward short-term risk-taking at the expense of other investments on behalf of firms and their stockholders?

Ms. ANDERSON. Yes. And I want to thank you, Senator Van Hollen, for your efforts to finally get this part of the 2010 Dodd-Frank bill implemented. This is the part that bans Wall Street firms from providing incentive compensation that encourages inappropriate risk.

And six different agencies have to agree to it. And so, it has gotten dragged out far too long. We're hoping to see action in ways

that would incentivize Wall Street executives to think more about the long-term value creation instead of complicated schemes that can blow up and put the rest of us at risk.

For one thing, they could require them to put a share of their incentive compensation into a joint fund that could be used to pay any potential penalties against the company for fraudulent behavior, but there are a lot of important ways that are on the table and being discussed to finally get that regulation over the line in a way that I think will mean that we're all safer from the kind of risks we saw in 2008.

Senator VAN HOLLEN. Well, thank you for that. And we are continuing to push all the federal agencies to move forward on those rules.

Dr. Stiglitz, thank you for raising the issue of tax treatment of capital gains at death. As you know, current law, including very large exemptions to the estate tax, entrenches and accelerates wealth inequality. In fact, it's one of the larger sources of just wealth being passed on from generation to generation in huge amounts, essentially, avoiding any taxes, any commitment to the public good in the process.

Could you just talk about why we need to address this issue and how failure to address it contributes to increasing wealth inequality in the United States and reducing investments in productive areas?

Dr. STIGLITZ. Well, first, let me say that it also contributes to a sense that the tax system is unfair. Because what it means is that the income of individuals that is earned in the form of capital gains of these rich individuals is never, never taxed.

So, while ordinary people may be taxed at 25–30 percent, those who can take advantage of stepped-up basis and receive their income or convert their income into capital gains totally escape that taxation. And because they escape that taxation, the wealth, they are able to pass on so much more wealth to the next generation, who, then, can engage in the same activity over their lifetime. And so, you have the creation of a plutocratic country.

Senator VAN HOLLEN. Well, thank you for summing that up quickly, and it's one of the areas that I and others have been focused on, and look forward to continue to work with you and appreciate all the work that you've done in this area over many, many years.

Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Thank you, Senator.

I'm going to wrap up the hearing here. One of the things we do in the hearing is ask witnesses to answer questions for the record.

And, Dr. Stiglitz, in particular, I would like to ask you a question for you to get back to us that relates to climate-related risk and the extent to which it appears now to be adequately or inadequately accounted for in the corporate sector.

We've heard again today my Republican friends trying to insist that there is a difference between climate risk and economic risk; that the two are unrelated. We've had abundant testimony from very expert and highly regarded people who are bound by fiduciary responsibility who point out the exact opposite.

I happen to believe that climate risk is the biggest looming risk over our economy. The climate risk is economic risk and that economic risk is budgetary risk. Indeed, a third of our debt has come from economic shocks, not just from the erosion of spending over taxation and income.

We've talked about the 2008 shock and its role today. And the Chief Economist for Freddie Mac warned that we've got another one coming just from coastal property values being hit, by the insurance failure that follows, by mortgage failure that follows, by values failure. And we've had other witnesses confirm that testimony.

So, I just flat-out reject the notion that climate risk is not economic risk, and that that economic risk is not a huge budgetary risk. I think all of the evidence runs to the contrary.

And in that regard, Dr. Stiglitz, you watch all of this very carefully. You've provided excellent economic testimony about climate risk. And I'd love you to answer in a written question for the record (QFR) how well you think at the moment the market is assessing climate risk and how well you think corporate reporting accounts for climate risk. Would you be willing to do that?

Dr. STIGLITZ. Very much so. And you're absolutely right, climate risk is an economic risk. It is a budgetary risk. And some people think, because climate change is out there in the distant future, it's not something that we have to pay attention to today. But that's not true. We're already getting some of the direct effects, as you mentioned, in terms of extreme weather events and in terms of coastal properties being adversely affected.

But there's another effect that I would want to emphasize, which is at some time in the not-too-distant future markets are going to wake up and realize that we can't go on with fossil fuels. And when that happens, there will be a re-evaluation of the price of fossil-fuel-related corporations/activities. And if you thought that there was a big shock from mispricing of residential real estate mortgages, this is an order of magnitude larger.

And hopefully, it won't happen; the market will realize this more gradually. But where we are right now, the market has not taken these risks onboard, and it could come as a very big shock to our entire economic system.

Chairman WHITEHOUSE. Well, I would ask you to write that out for me as a response to a question for the record; and also, to touch on how effective you think the new SEC proposal will be in improving the climate risk reporting.

Chairman WHITEHOUSE. And with that, let me thank the witnesses for appearing before the committee today.

Questions for the record, other than the one I just asked, will be due by noon tomorrow, either to the Committee clerk or by email.

We will ask the witnesses—Dr. Stiglitz, this would be you—if you wouldn't mind responding within 7 days of noon tomorrow. That would be very helpful to us, as a Committee, to have your response in by then.

And ditto to any other questions for the record that come in by noon tomorrow.

Chairman WHITEHOUSE. With no further business before the committee, our hearing is adjourned.

[Whereupon, at 11:22 a.m., Wednesday, June 12, the hearing was adjourned.]

Opening Statement of Chairman Whitehouse
Senate Budget Committee Hearing “Making Wall Street Pay Its Fair Share: Raising
Revenue, Strengthening Our Economy”
June 12, 2024

Ranking Member Grassley, members of the committee, witnesses, and guests, welcome.

Next year, a number of provisions from the 2017 Trump tax cuts will expire. Republicans have made clear their plans to add \$4.6 trillion to the deficit by extending these provisions, \$4.6 trillion, according to the latest estimate by the nonpartisan Congressional Budget Office—\$4.6 trillion to enact another budget-busting windfall for the wealthy.

Democrats are fighting to reduce the deficit, fix our corrupted tax code so that big corporations and the wealthy pay their fair share, and invest in an economy that works for everyone—all while ensuring those making less than \$400,000 don’t see their taxes go up.

Today, we’ll look at one option: making Wall Street pay its fair share.

In 2008, Wall Street’s reckless speculation caused a major economic catastrophe. Millions of Americans lost their jobs. More than half of American families lost at least a quarter of their assets.

That economic shock haunts me as I hear the warnings about climate-related economic shocks.

From an economic fairness perspective, Wall Street riches accrue more and more to the already extremely rich. One percent of Americans now own 54 percent of US-owned shares in the stock market. Median CEO pay of companies in the S&P 500 hit a record \$15.7 million. Since 1978, worker pay has grown somewhat, but economic productivity grew at four times the rate of wage growth. And executive pay has grown more than 18 times faster than productivity growth.

Too often, Wall Street profits from trickery like stock buybacks that reward CEOs and wealthy shareholders, trickery which surged following the Trump corporate tax cut.

No surprise, real estate investors got particularly favorable Trump tax treatment. At the 11th hour, real estate investors got let into a provision Republicans had claimed was for small businesses, providing a tax break worth tens of billions for wealthy real estate moguls.

Corporate taxes used to pay a fifth or more of American tax revenue. Now it’s down to six percent. Many huge corporations pay zero. Billionaires pay lower rates than nurses and plumbers.

Our tax code is corrupted and rotten, turned upside down for special interests.

What can we do about it?

Fix the carried interest loophole. Stop rewards for offshoring jobs. Lock in a real corporate minimum tax on foreign profits so huge corporations can't pay zero. Raise the tax on buybacks passed in the Inflation Reduction Act. Tax companies that pay their CEOs more than 50 times what they pay their average worker. Enact a minimum tax so the richest can't pay lower rates than everyone else. Use de-corrupting the tax code to make Medicare and Social Security sound and safe as far as the actuarial eye can see.

What's clear as Congress gears up for the 2025 tax fight is that Trump and his Republican allies plan to blow up the deficit with trillions more in tax cuts for the superrich and the largest corporations. Democrats will oppose that giveaway.

But it's not enough just to undo the damage of the Trump tax law—our tax code wasn't fair before that. Instead, we must finally de-corrupt the tax code so that the wealthy and corporations finally pay a fair share.



UNITED STATES SENATE
BUDGET COMMITTEE
RANKING MEMBER CHUCK GRASSLEY

Opening Statement by Senator Chuck Grassley of Iowa
Ranking Member, Senate Budget Committee
Hearing titled, "Making Wall Street Pay Its Fair Share: Raising Revenue, Strengthening Our
Economy"
Wednesday, June 12, 2024

Mr. Chairman,

Initially, I thought today's hearing related to federal revenues was a nice change of pace, particularly when compared to the 19 hearings we've had in this committee on global warming.

As I said last year at our first hearing concerning tax issues, "Congress should regularly examine tax incentives, just as we should review spending programs, to ensure they're working as intended."

Unfortunately, as is evident from today's politically oriented hearing title, an objective review of our tax laws isn't what this hearing's about.

As a former chair and ranking member of the Finance Committee, I assure you passing legislation to close loopholes or shutdown abusive tax avoidance strategies isn't easy.

It requires much more than these kinds of hearings or appealing to a never-defined "fair share" of taxes.

It requires building a bipartisan consensus for action and understanding issues that often can't be boiled down to Wall Street versus Main Street.

After all, most Americans, not just the wealthy elite, own stock either directly or indirectly as part of retirement plans.

I just learned recently that in the last ten years, the number of people holding stock has increased from 52 percent to 62 percent.

I fondly recall working with my friend Senator Baucus to identify and enact bipartisan measures to [close abusive tax loopholes](#), regardless of which one of us was chairman of Finance.

We held bipartisan hearings to better understand the law at issue and take account of both policy and political concerns that might arise.

In contrast, I suspect that today's majority will demagogue complex issues and deride Republicans for protecting Wall Street.

Well, I've got this news for my colleagues on the Left: the reason many of the proposals we're likely to hear about today aren't law is because of Democrat opposition, not Republican opposition.

Take carried interest as just one example.

Concerns about carried interest became prominent in the 2000s as private equity and hedge funds grew in prominence.

In response, Senator Baucus and I called [bipartisan hearings](#) to study the issue.

However, our review was immediately met with resistance – and not just from those you might expect.

I recall Senator Baucus informing me about strong pushback he received privately from certain Democrats, which ultimately led to shelving a proposal that we were actively considering.

Despite this, Democrats publicly and continuously blast carried interest as a loophole for the rich and blame Republicans for its existence. Yet, when they've had full control of the levers of power, they've repeatedly failed to eliminate it.

To date, the only legislative action taken to limit the use of carried interest was enacted by Republicans as part of the 2017 tax law.

At the time, Democrats roundly criticized Republicans for not going far enough on carried interest. Yet, when they had the opportunity to address it as part of their so-called Inflation Reduction Act, they failed.

This led to the left-wing publication Jacobin [writing](#), “Democrats pretended they were cracking down on private equity moguls. The truth: Dems were actually protecting them, perhaps because private equity firms are major Democratic donors.”

Carried interest isn't the only area where the majority says one thing but legislates another way.

The majority regularly decries corporate handouts and large corporations paying little or no tax. But, again, their so-called Inflation Reduction Act proves otherwise.

Included in this partisan tax and spending bill are hundreds of billions of dollars in new or expanded tax incentives for favored “green” companies.

The law also includes novel new tax features, such as “direct pay” and “transferability,” that actually make it easier for corporations, banks and even private equity firms to pay little or no tax.

Thanks to the Inflation Reduction Act and other legislation passed under President Biden and the Democrat Majority, corporate tax benefits are now 92 percent higher than they were under President Trump. That's based on an analysis of our own Department of Treasury's tax expenditure projections.

I'm all for examining perceived loopholes and looking for ways to improve the fairness of our tax code.

As past chairman of the Finance Committee, I actually got important reforms passed into law.

But, despite all the handwringing, that's not a path my colleagues on the other side are taking.

Thank you, I look forward to hearing from our witnesses.



Testimony of Dr. Joseph Stiglitz, University Professor of Economics, Columbia University
Senate Committee on the Budget
“Making Wall Street Pay Its Fair Share: Raising Revenue, Strengthening Our Economy”
June 12, 2024

Thank you, Chairman Whitehouse, Ranking Member Grassley, and members of the Committee. It is a great pleasure to be able to discuss future directions of tax policy with you. In the few minutes I have, I want to emphasize four directions for reform. They all center on making our tax code more equitable and helping it to create a more dynamic economy that promotes the wellbeing of all Americans, rather than just Wall Street and other corporate giants or the wealthiest individuals.

In my remarks below, I will illustrate how the tax code has explicitly contributed to inequality and excessive financialization of the economy, and distorted the allocation of investment towards fossil fuels and real estate and away from investments that would sustainability raise living standards. In particular, US tax policy provides considerable advantages for unproductive activity from Wall Street firms and wealth investors.

The first set of reforms should be obvious, but there are strong forces pushing the other way: We need to close the loopholes and eliminate the special provisions that result in the richest individuals and most profitable firms not paying their fair share of taxes. Those at the top pay a smaller proportion of their true income (especially if we were to include unrealized capital gains) than do the less well off.¹ Today, remarkably, billionaires in the United States have a lower effective tax rate than working class Americans.

It makes no sense that dividends and capital gains should be taxed at lower rates than wages—it is fundamentally inequitable that someone who is receiving dividends in his beach resort from inherited stocks should pay a fraction of the taxes of a nurse who is working long hours to take care of us during the COVID-19 pandemic. Or that a hedge fund manager uses the carried interest loophole so she, too, can escape much of the taxes she would otherwise have to pay.

Fair taxation of capital gains would eliminate their tax advantages over other forms of income by at least equalizing tax rates. Further, we should implement a constructive realization policy, where gains are taxed based on the current value of assets, rather than only when gains are realized (entailing mark-to-market for marketed assets).² At a bare minimum, failing to implement a fully effective system of constructive realization, we need to tax fully unrealized capital gains at death. As it now stands, we tax capital gains only upon realization, which can give rise to a locked-in effect and marked de facto preferential treatment.

To start, Congress should implement President Biden’s proposed “Billionaire Minimum Income Tax,” which would require households worth more than \$100 million to pay a 25% annual minimum tax on their full income, including realized and unrealized gains. Because wealth can be easily shifted from one country to another, international coordination is needed to ensure that every country can impose an effective minimum tax on the rich. Brazil’s G20 initiative, for example, proposes a global minimum capital income tax of at least 2% of wealth. These two

¹ See, for example: Leiserson and Yagan (2021); Eisinger, Ernsthausen, and Kiel (2021); Gale and Vignaux (2023); and Saez and Zucman (2019).

² There are many details of such a system which I do not have time to expound on today.

policies would go a long way to support efforts to tax the ultra-rich and reduce today's extreme levels of inequality.³

The more profitable the corporation and the richer the individual, the more they avail themselves of the opportunity to avoid taxation. Corporations, for instance, shift their reported profits to low-tax jurisdictions.⁴ While I commend the efforts to curtail such activities, for instance through the imposition of a global minimum corporation tax, what has been done so far falls far short of what needs to be done. In particular, the minimum corporate tax rate should be significantly increased from the current levels in US law and the levels in the proposed OECD pillar II.⁵

Worse—many of these special provisions not only deprive the country of revenues needed for critical investments—they work in ways to weaken the economy. They have enabled and incentivized shareholder payouts, including share buybacks, which means that companies have fewer resources to invest.⁶ They reward companies for devoting their energies to tax avoidance rather than becoming more innovative. Companies that excel in tax avoidance or in garnering for themselves monopoly profits grow at the expense of others, leading to a less dynamic, less efficient, and more distorted economy—and a more inequitable society, which feeds into the growing inequality in our country and into a pervasive sense of a system that is unfair and rigged.

The second category of tax reforms are centered on eliminating special provisions that are directly distortionary. The most obvious example are the large subsidies we provide through the tax system for fossil fuels, as this Committee has previously examined.⁷ Our tax system has also encouraged the excessive financialization of the economy, with preferential treatment especially provided for debt finance, making the economy less stable, increasing inequality, and providing tremendous payouts for Wall Street firms.⁸ These distortions became manifest in the 2008 financial crisis, and the country paid an enormous price.⁹ But that was just the easily visible tip of the iceberg.

The third category of tax reforms are those that use the tax code actively to create a better economy and society, most importantly by curtailing activities that generate negative externalities and encouraging those that generate positive externalities. Carbon and other environmental taxes are the most obvious examples of the former, the subsidies embedded in the Inflation Reduction Act (IRA) and R&D tax credits (when appropriately designed) are good examples of the latter. A financial transactions' tax should also be considered: It would

³ Stiglitz and Ghosh (2024).

⁴ See, for example: Alstadsæter, Godar, Nicolaidis, and Zucman (2024); Gravelle (2009); and Dowd, Landefeld, and Moore (2017).

⁵ Independent Commission for the Reform of International Corporate Taxation (2024).

⁶ See, for example: Hager and Baines (2023); Palladino (2018); and Korinek and Stiglitz (2009).

⁷ See, for example: Friedman (2024); Erickson and Achakulwisut (2021); International Energy Agency (2022); and Brind'Amour (2024)

⁸ See, for example: Lin and Tomaskovic-Devey (2013); Palladino (2018); and Gordon (2010).

⁹ See, for example: Hemmelgarn and Nicodème (2010); Keen, Klemm, and Perry (2010); and Slemrod (2009).

discourage unproductive speculation that can sometimes lead to macroeconomic instability, which imposes enormous costs on our society.¹⁰

The final category of reforms would improve the efficiency of the tax system by focusing more on non-distortionary areas, where elasticities are low. These are of several kinds. The first are windfall profits taxes—the huge profits, for instance, that accrued to oil and other energy companies in the months after Russia’s invasion of Ukraine.¹¹ While ordinary Americans struggled to pay their energy bills, oil companies were raking in unprecedented profits, and not through any work on their part. It was a big mistake not to have imposed a tax on those profits and used some of the revenue to help those who were suffering because of these price surges.¹²

The second kind of non-distortionary taxes includes the speculative returns to land. Preferential taxation of land doesn’t result in more land. Savings diverted to land speculation is savings that could have gone into productive capital accumulation or R&D. No country became prosperous on the basis of real estate speculation. Yet, we give real estate strong preferential treatment.

The same thing is true for natural resources more generally. The rents generated by such resources should be taxed at higher—not lower—rates than those imposed on other sources of income.

This is true, too, for other forms of rent—most notably, monopoly rents. Taxing monopoly rents would doubly benefit the economy: it would discourage monopolies, leading to a more competitive, dynamic economy, and the equity value of these monopoly rents (their present discounted value) diverts savings from more productive uses, just as land speculation does.¹³

These are all reforms that would improve equity while they increase the efficiency of our tax system. There are still others that I could have discussed, which contribute greatly to our country’s inequality and simultaneously hurt economic performance. The provisions that allow CEO’s to pay a lower tax rate are an example: This is money that would have been better spent on investments in people, research, and equipment. Disparities of pay undermine morale. The non-transparent dilution of shareholders is taking money away from retirees.

The comprehensive reform agenda I’ve laid out will take time and effort to implement fully. But in the meanwhile, there are some simple reforms that could be done quickly:

- 1) Remove the tax advantage for capital gains over other forms of income.
- 2) Implement a constructive realization policy, taxing assets based on their current value rather than only when the gains are realized; and fully tax any unrealized/untaxed capital gains at death.

¹⁰ See Lincoln (2015) and Wamhoff, Roque, and Schieder (2019). For an early discussion, see Stiglitz (1989).

¹¹ McCormick (2022) and Ziady (2023).

¹² Independent Commission for the Reform of International Corporate Taxation (2022); As Senator Whitehouse and a number of members of this committee suggested. <https://www.whitehouse.senate.gov/news/release/after-record-year-for-big-oil-whitehouse-revamps-bill-to-claw-back-windfall-profits-and-send-relief-to-the-american-public/>

¹³ Mitchel and Holmberg (2023); Hager and Baines (2023); and Lusiani and DiVito (2024).

- 3) Implement a minimum income tax, along the lines of President Biden's proposed "Billionaire Minimum Income Tax" and Brazil's proposed 2% global minimum wealth tax now being discussed within the G20.¹⁴
- 4) Increase the minimum corporate tax rate.
- 5) Eliminate tax subsidies for fossil fuels and implement carbon and other environmental taxes.
- 6) Expand and make permanent subsidies that increase productive economic activity, such as R&D tax credits.
- 7) Implement a financial transactions tax.
- 8) Implement windfall profits taxes.
- 9) Reverse preferential tax treatment for income from land and other natural resources.
- 10) Require greater transparency requirements for stock options, including disclosure of dilution of existing shareholders and eliminate preferential treatment (including their being subject to payroll and Medicare taxes) of pay, including retirement benefits, for all high-income individuals, including CEOs

We can create a more equitable tax system which generates substantially more revenue and promotes growth. The principles are clear, and in many cases, their application is straightforward. Vested interests, reflected through the power of money in our politics, are what stand in the way.

Thank you for your time, and I look forward to your questions.

¹⁴ Elliott (2024) and Stiglitz and Ghosh (2024).

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**Testimony of Sarah Anderson
Global Economy Project Director
Institute for Policy Studies**

**Before the United States Senate
Committee on the Budget**

“Making Wall Street Pay Its Fair Share: Raising Revenue, Strengthening Our Economy”

Thank you, Chairman Whitehouse, Ranking Member Grassley, and members of the committee, for the invitation to participate in this important hearing. I am Sarah Anderson, Global Economy Director at the Institute for Policy Studies, an independent center for research and action founded in 1963. I also co-edit the Institute’s Inequality.org web site.

The first time I testified before this committee, in 2012, our economy was still recovering from the financial meltdown four years earlier that had thrown millions of Americans out of their homes and jobs. In fact, the U.S. unemployment rate and median household income did not return to pre-crisis levels until several years after that hearing.¹

Congress and regulators have taken steps to protect our country from the Wall Street greed that was a key driver of the 2008 crash. But financial institutions still extract too much wealth from working families and funnel too much of that wealth into massive executive bonuses that encourage excessive risk-taking – and even financial fraud.² And, as we saw with the spate of regional bank failures in 2023, reckless executives can still drive their firms into the ground and walk away with grand fortunes while relying on taxpayer money to contain the damage.³

Much more needs to be done to ensure our financial system contributes to a healthy economy and focuses on long-term value creation instead of short-term speculation that might pump up CEO pay but does little for the rest of us. Today’s hearing will examine one important tool for guiding Wall Street in this direction: tax policy.

Next year, the scheduled expiration of several provisions in the 2017 Tax Cuts and Jobs Act will force a major tax debate in Congress. This is an opportunity to take a hard look at Wall Street and consider the following questions:

- 1. Would our tax system be fairer if financial institutions and executives contributed more to the cost of public investments needed for a strong economy?**
- 2. Can we use tax policy to discourage financial activities that exacerbate instability and inequality and instead incentivize activities that create long-term value?**

In my view, the answer to both questions is “yes.”

1. Financial institutions and executives are not contributing their fair share to the cost of public investments needed for a strong economy

Recently enacted laws are funneling hundreds of billions of dollars into public infrastructure and clean energy – investments that will be a boon to Wall Street because more efficient transportation and telecommunications and a more sustainable energy supply will improve the business environment for everyone. But the financial industry, despite being one of the most consistently profitable economic sectors, is not contributing a fair share to the costs of these and other vital public investments, for complex reasons. Here are just a few:

- **Big loopholes allow financial firms to pay low effective tax rates**

A recent Institute on Taxation and Economic Policy report looked at large U.S. firms that were profitable in every year from 2013-2021. The 44 financial firms in their sample had an average effective federal income tax rate of just 17.7 percent during the four years before the 2017 Tax Cuts and Jobs Act. After that law slashed the corporate tax rate from 35 percent to 21 percent, these firms' effective rate fell to just 12.5 percent.⁴

Two of the country's top four banks, Citigroup and Bank of America, paid just a 4 percent effective tax rate during the 2018-2021 period. These global mega-banks have access to a wide array of tax breaks and avoidance strategies, including subsidiaries in notorious tax havens such as the Bahamas and the Cayman Islands – two countries that apply no taxes to foreign corporations' earnings.⁵

Effective Federal Income Tax Rates, Before and After the 2017 Tax Cut		
Banks in the top 10 in the United States that were profitable every year from 2013-2021		
	2013-16	2018-21
Bank of America	7%	4%
Citigroup	6%	4%
JPMorgan Chase	6%	10%
PNC	14%	12%
Truist	16%	15%
U.S. Bancorp	27%	15%
Capital One	31%	16%
Bank of New York Mellon	31%	18%

Source: Institute on Taxation and Economic Policy, "Corporate Taxes Before and After the Trump Tax Law," May 2, 2024. **Note:** The report did not include two additional banks in the U.S. Top 10: Wells Fargo, because the bank had a loss in the US in 2020, and Goldman Sachs, which does not provide the necessary information for this analysis.

The nature of the financial industry facilitates offshore tax dodging. Transactions in the multi-trillion dollar global derivatives market, for example, can be recorded nearly anywhere in the world to take advantage of jurisdictions with low or no taxes. Small businesses rooted in U.S. communities lack the ability to hide their profits in tax havens.

Provisions in the Tax Cuts and Jobs Act to curb offshore tax avoidance, the "global intangible low-taxed income" (GILTI), have proved largely ineffective.⁶ The 2022 Inflation Reduction Act took an important step forward by introducing a 15 percent corporate minimum tax on the

largest U.S. corporations (those with profits exceeding \$1 billion on average over the preceding three years). As the Institute on Taxation and Economic Policy has pointed out, the minimum tax will not entirely shut down offshore tax avoidance because it will affect only about 150 very large companies, applies to aggregate worldwide profits instead of on a country-by-country basis, and includes other exceptions and carveouts.⁷ Ideally, Congress would build on this progress by approving U.S. participation in the 137-country agreement the U.S. Treasury Department helped broker in 2021 to create a global minimum tax. This tax is more focused on preventing offshore tax avoidance and would affect many more companies.

- ***The tax code applies zero sales tax on financial market transactions, encouraging unproductive high frequency trading.***

Most Americans are used to paying sales taxes when they purchase a car, a winter coat, or a restaurant meal. But a Wall Street trader pays no sales tax at all on purchases of millions of dollars' worth of stocks or derivatives.⁸

This tax-free approach has contributed to the explosion of the algorithm-based high frequency trading that drives about half of today's U.S. trading volume.⁹ The goal of this computerized trading is not to create value but to move at lightning speed to exploit microscopic price differences on different exchanges.

Many financial experts, including a former CFTC chief economist, have warned that high speed trading siphons profits from traditional investors.¹⁰ Bank for International Settlements and University of Chicago analysts estimate that high frequency traders capture as much as \$5 billion a year at the expense of other participants in global equity markets.¹¹

As the conservative group American Compass describes it, high frequency trading "accomplishes little beyond diverting capital and talent from more productive pursuits."¹²

- ***Financial executives enjoy huge windfalls from the preferential tax treatment of capital gains and the "carried interest" loophole***

The top tax rate on long-term capital gains (on assets held more than a year) is just 20 percent,¹³ while the top rate for regular income such as wages and salaries is nearly twice that, at 37 percent.¹⁴

As Warren Buffett has famously pointed out, this huge differential means that wealthy Americans, who derive the bulk of their income from investment profits, typically pay a lower tax rate than millions of our country's firefighters, nurses, small business owners, and teachers.

As of the 3rd quarter of 2023, the richest 1 percent of Americans held nearly half (49.4 percent) of all stocks and mutual funds while the bottom 90 percent held only 13.1 percent.¹⁵ Financial executives are heavily represented among the wealthy investor class. In fact, the *Forbes* list of the 400 richest Americans includes 134 billionaires whose wealth stems from the finance and real estate industries.¹⁶

Executives who work for big investment funds – particularly private equity funds – are in an exceptionally privileged position to capitalize on our tax code’s bias in favor of investment income. Under current rules, managers of these funds pay the discounted capital gains tax rate on “carried interest” (earnings tied to a percentage of the fund’s profits). This income actually amounts to compensation for managing other people’s investments and critics have long demanded that it be treated as ordinary income for tax purposes.

The 2017 Tax Cuts and Jobs Act slightly narrowed the carried interest loophole by extending the required asset holding period from one to three years, but this has had limited effect since most private equity funds already hold their assets for more than five years.¹⁷

The Carried Interest Fairness Act (S. 4123) would require carried interest income to be taxed at ordinary income tax rates, raising an estimated \$6.5 billion in revenue over 10 years.¹⁸ Another proposal, the Ending the Carried Interest Loophole Act (S. 3317), would tax carried interest at ordinary income rates and also prevent fund managers from deferring payment of taxes on wage-like income. The revenue estimate for this bill: \$63 billion over a decade.¹⁹

- ***The Tax Cuts and Jobs Act further enhanced real estate investors’ privileged tax status***

Real estate investors have long enjoyed favored tax status. In a detailed report, Americans for Tax Fairness experts describe how these investors can “delay, minimize, and altogether avoid taxes on their winning investments while mining their losses for big tax write-offs far more easily than other investors.”²⁰

The 2017 Tax Cuts and Jobs Act opened up several more loopholes for this segment of the financial industry. The costliest: A last-minute change to the law allowing real estate investors to benefit from a new 20 percent pass-through business income deduction, even though they do not fit the profile of the “small business owner” the deduction was meant to serve.²¹ The Joint Committee on Taxation estimates that extending the “qualified business income” tax break to direct investors in real estate and to passive real estate investment trust (REIT) investors will cost \$28.9 billion over a decade.²²

3. Tax policy options to discourage financial activities that exacerbate instability and inequality and to incentivize activities that create long-term value

Taxes can be a useful tool for encouraging positive practices while also raising much-needed revenue for public investment. Bipartisan tobacco taxes, for example, have helped reduce smoking rates, saving lives and health care costs and also raising revenue for public health programs. Wall Street recklessness is also a threat to the public welfare. Congress would do well to use tax policy to both raise additional revenue from the financial industry and encourage a stronger focus on long-term value creation and stability over unproductive short-term speculation and excessive CEO pay.

- ***Curb the excessive CEO pay levels that are driving inequality and undermining business effectiveness***

The 2008 financial crisis, when bankers chasing huge bonuses drove our economy off a cliff, is a particularly dramatic example of how corporate pay practices can put us all at risk. In the three years leading up to the meltdown, the top five executives at the 20 biggest bailed out banks had averaged \$32 million each in personal compensation.²³

Public Citizen has examined in detail how financial executives maneuvered to hit their bonus targets while leading the country to disaster. Official analyses of the crisis – and even Wall Street employees themselves – recognized compensation practices as a significant contributing factor.²⁴

Congress responded by mandating several executive pay reforms in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. But 14 years later, regulators have still not implemented one of the most important – a ban on incentive compensation structures that promote “inappropriate” risk-taking.²⁵

Meanwhile, Wall Street recklessness rages on. In a recent letter urging regulators to finalize the Dodd-Frank pay regulation, Senator Chris Van Hollen and Rep. Nydia Velázquez cited numerous examples of continued compensation-related banking crises, from last year’s regional bank failures to JPMorgan’s London Whale fiasco to the Wells Fargo fake account scandal.²⁶

CEO pay at the big banks also remains in the stratosphere. In 2023, total compensation for CEOs of the 10 largest averaged \$24.2 million and the average gap between CEO and median worker pay stood at 254 to 1.

CEO Pay and CEO-worker Pay Ratios, 2023			
<i>The top 10 U.S. banks, ranked by assets</i>			
	Bank	CEO total compensation	CEO-median worker pay ratio
1	JPMorgan Chase	\$35,093,780	366
2	Bank of America	\$28,579,834	230
3	Wells Fargo	\$25,966,198	325
4	Citigroup	\$25,472,477	360
5	U.S. Bank	\$22,933,683	259
6	PNC	\$19,973,770	191
7	Truist	\$12,434,311	114
8	Goldman Sachs	\$26,670,817	174
9	Capitol One	\$28,589,573	307
10	Bank of New York Mellon	\$16,819,670	209
	Average	\$24,253,411	254

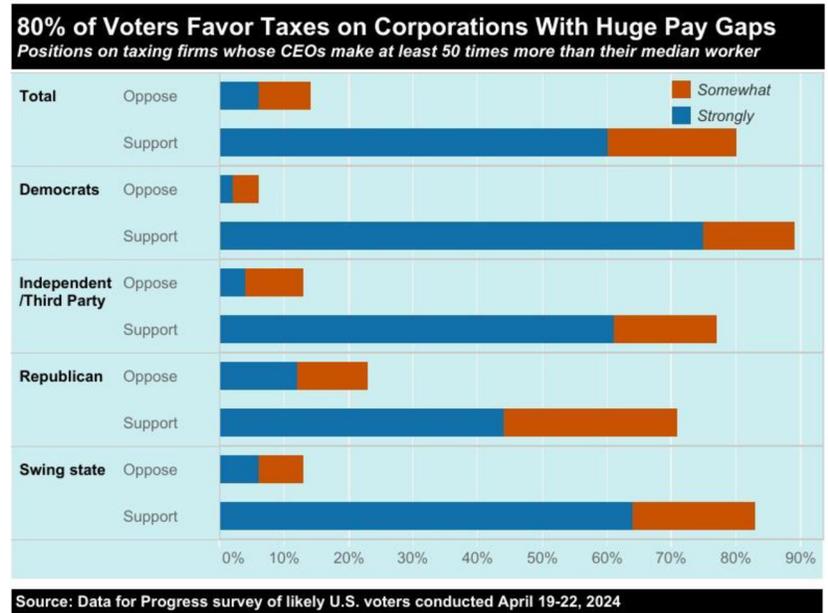
Source: Corporate proxy statements filed with the SEC.

While financial sector examples might be the most obvious, Corporate America is rife with tales of outrageous executive pay encouraging behavior that harms workers, communities, and the broader economy. At the Institute for Policy Studies, we have been documenting for decades

how reckless practices have perversely rewarded CEOs for slashing jobs, cooking the books, accelerating climate change, and dodging taxes.²⁷

The American people want action on executive excess. Poll after poll has found that majorities across the political spectrum view big company CEOs as overpaid, particularly compared to their employees.²⁸ A Harvard Business School study found that Americans think the right CEO-worker pay ratio runs no higher than 7 to 1.²⁹ Last year, that ratio was close to 200 to 1.³⁰

A May 2024 survey asked likely voters about one possible congressional action: a tax hike on corporations that pay their CEO at least 50 times more than they pay their median employee.³¹ Overall, 80 percent of participants supported the idea, including large majorities in every political group (89 percent of Democrats, 77 percent of Independents, and 71 percent of Republicans). In swing states, 83 percent of likely voters gave the proposal a thumbs up.



Pay ratio taxes give companies with huge internal disparities two choices: 1) narrow their pay gaps or 2) face a bigger IRS bill. A company where half of employees earn less than \$60,000, for instance, would have to limit CEO compensation to no more than \$3 million or raise worker pay to avoid higher taxes. In 2022, average S&P 500 CEO pay hit \$16.7 million.³²

By incentivizing narrower pay gaps, such taxes would encourage practices that are good for the bottom line. Extensive research has shown that extreme gaps between CEO and worker pay undermine corporate performance by lowering employee morale and boosting turnover.³³

Analysis from the *Wall Street Journal* and the corporate governance firm MSCI also found that higher-performing CEOs actually tended to have lower compensation than their peers.³⁴

Rather than an indicator of high performance, massive CEO paychecks reflect a rigged corporate governance system that allows the leaders of our most powerful corporations to extract personal wealth from the workers, clients, and communities that support their firms.

Tax policy options:

Curtailing Executive Overcompensation (CEO) Act (S. 3176/H.R. 6191): Applies an excise tax to publicly traded and private companies that have above a 50:1 CEO-to-median-worker pay disparity. Under the excise tax formula, the rate owed would be proportional to the degree the company's pay ratio exceeds 50:1 and to the level of the CEO's compensation. In other words, if a company has a large pay gap, they would owe extra taxes and if they also have extremely high CEO pay, they'd owe even more.³⁵ Revenue estimate: If the bill had been in effect in 2022, it would have raised more than \$10 billion from the Fortune 100 largest U.S. companies alone.³⁶

Tax Excessive CEO Pay Act (S. 794/H.R.1979): Ties a company's federal corporate tax rate to the size of the gap between their CEO and median worker pay. Tax penalties would begin at 0.5 percentage points for companies that pay their top executives between 50 and 100 times more than their median workers. The highest penalty would apply to companies that pay top executives over 500 times worker pay. Revenue estimate: \$150 billion over 10 years.³⁷ The CEO Accountability and Responsibility Act (H.R. 1284) imposes similar tax penalties for large ratios.

- **Encourage long-term investment and curb short-term speculation**

As noted above, the U.S. government's tax-free approach to financial market transactions has encouraged an explosion of algorithm-based high frequency trading that adds no significant value to the real economy and siphons profits from ordinary investors.

Even a small tax of just a fraction of a percent on each trade of stocks, derivatives, and other financial instruments would curb unproductive short-term speculation while generating significant revenue.

More than 30 countries, including many with deep and fast-growing financial markets, such as the UK, France, Spain, Italy, Hong Kong, Singapore, Switzerland, and India, currently have financial transaction taxes on particular asset classes. These taxes are a significant source of annual revenue for many countries, including approximately \$4.3 billion for the United Kingdom, more than \$7.5 billion for South Korea, Hong Kong, and Taiwan, and \$1.7 billion for Switzerland. In France, revenue from a very narrow transaction tax amounts to about \$2.2 billion per year.³⁸

Wall Street lobbyists claim that such taxes would harm mom and pop investors and retirees, but the prime targets would be the high-flyers in the financial casino, the ones with the capital to take advantage of high frequency trading schemes that undercut traditional investors. For most private pension funds and traditional stock-and-bond-holders, the cost of the tax would be

negligible — less than typical portfolio management fees.³⁹ A financial transaction tax would be “quite progressive,” concludes the Washington, D.C.-based Tax Policy Center.⁴⁰

Tax policy options:

Wall Street Tax Act (S. 2491/H.R. 4870): A tax of 0.1% on the fair market value of equities and bonds, and the payment flows under derivatives contracts, with exemptions for short-term debt and initial issuances.⁴¹ Revenue estimate: \$752 billion in revenue over 10 years.⁴²

Tax on Wall Street Speculation (S. 1990/H.R. 4119): Taxes of 0.5% on stock trades, 0.1% on bonds, and 0.005% on the value of derivatives, with a tax credit for individuals making less than \$50,000 and couples making less than \$75,000 per year and additional exemptions. Revenue estimate: nearly \$220 billion per year.⁴³

Additional proposals include a model designed by former Lazard investment banking head Antonio F. Weiss and former Treasury official Laura Kawano for a 0.02% tax on stock, bond, and derivatives trades, with gradual increases to 0.1% in four years⁴⁴ and another by Hamilton Project experts for a 0.03% tax.⁴⁵

- **Discourage wasteful, CEO pay-inflating stock buybacks**

Supporters of the Tax Cuts and Jobs Act claimed that the benefits of the corporate tax breaks would flow immediately to workers in the form of pay increases. White House officials estimated that U.S. workers could look forward to wage bumps of at least \$4,000 per year on average.⁴⁶ Hundreds of U.S. corporations made similar bonus pledges to their employees.⁴⁷

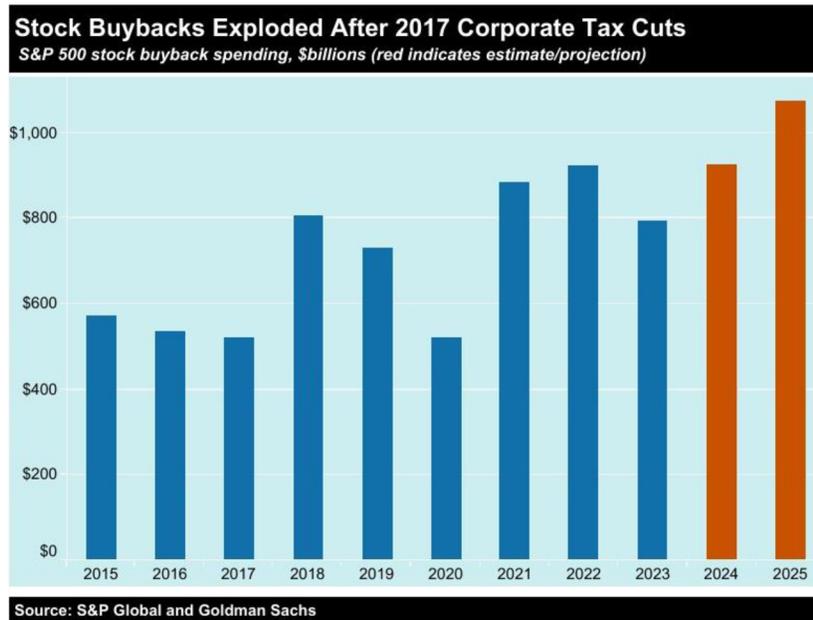
Instead, the Congressional Research Service found that corporations generally spent their tax windfalls not on worker raises but on stock buybacks.⁴⁸ All total, U.S. corporations spent \$1 trillion repurchasing their own shares in 2018, the first year the Tax Cuts and Jobs Act went into effect.⁴⁹ S&P 500 firms alone spent \$806 billion, a massive jump from the \$519 billion they spent repurchasing stock in 2017.⁵⁰

The huge post-tax cut outlay changed the norms for buyback spending, and as the economy began recovering from the Covid pandemic, corporations began shattering records once again. While buybacks dipped in 2023 due to recession concerns, Goldman Sachs analysts expect a sharp uptick this year and a historic outlay of more than \$1 trillion in 2025.⁵¹

Stock buybacks are a financial maneuver that artificially boosts the value of a company’s earnings per share, which in turn pumps up the value of executive paychecks. Equity-based pay (stock options, performance stock units, restricted stock, etc...) typically makes up the bulk of CEO compensation. The Economic Policy Institute found that realized equity compensation made up more than 81 percent of total average realized CEO pay at big corporations in 2022.⁵²

Spending tax-cut windfalls and other profits on stock buybacks siphons resources from worker wages, R&D, and other productive investments that stimulate long-term growth. Analysts have

documented the association between buybacks and worker layoffs, as well as reduced capital investment and innovation and wage stagnation.⁵³



As Natalia Renta of Americans for Financial Reform puts it, buybacks are a prime example of “the real economy servicing financial markets” — the exact opposite of Wall Street’s proper role of supporting productive companies and long-term investments necessary for a sustainable and equitable economy.⁵⁴

Stock buybacks were considered stock manipulation and largely banned until 1982, when corporate lobbyists succeeded in pressuring the SEC to legalize them. Members of Congress have introduced several bills to reinstate that ban, including the Reward Work Act (HR 3694).

The Advancing Long-term Incentives for Governance Now (ALIGN) Act (S. 790) would require executives to hold stock-based compensation for at least three years and to hold their stock for 12 months following the announcement of a stock buyback. A 2019 SEC investigation revealed that in the eight days following a buyback announcement top executives sold five times as much stock on average as they had on ordinary days.⁵⁵ The Biden administration has also taken a first step towards using the power of the public purse to discourage stock buybacks by giving companies a leg up in the awarding of semiconductor subsidies if they agree to forgo buybacks for five years.⁵⁶

Tax policy options:

Stock Buyback Accountability Act (S. 413): The 2022 Inflation Reduction Act introduced a 1 percent excise tax on the repurchase of corporate stock.⁵⁷ This bill would increase that rate to 4 percent. The bill also includes a modification to existing law to prevent corporations from lowering their excise tax base by issuing new stock compensation for top executives.⁵⁸ Revenue estimates: The existing 1 percent excise tax is projected to raise \$74 billion over 10 years.⁵⁹ A 4 percent tax could be expected to generate \$238 billion in new revenue over the next decade.⁶⁰

Conclusion

For too long, Wall Street lobbyists have wielded excessive power to shape our tax code in ways that allow this lucrative sector to pay far less than their fair share of all the public services and infrastructure necessary for a healthy economy. The industry has also successfully fought efforts to use tax policy in responsible ways to encourage Wall Street to focus on long-term value creation and sustainability instead of capturing wealth for an elite few.

The 2025 tax debate will be an opportunity to address these problems, as part of a larger overhaul of our tax code that will make our country stronger. This past month, more than 100 civil society organizations (including my own) endorsed a letter urging Congress to embrace a bold, fresh approach to tax policy that “supports public investments, brings good jobs back from overseas, combats harmful concentrations of economic power, reduces poverty and racial disparities, improves health, and directly mitigates the economic risks of climate change and an unsustainable fiscal trajectory.”⁶¹

The letter specifically calls for “high-income households (those who take home more than \$400,000), the extremely wealthy, large profitable corporations, and Wall Street to pay a greater share of their income in taxes than if each of the expiring TCJA provisions were simply allowed to expire.”

Continuing the status quo — or returning to the pre-2017 tax code — will not be acceptable if we are to meet the public investment needs of our time and reverse our country’s staggering economic and racial disparities.

Notes

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Testimony of The Honorable Michael Faulkender, Ph.D, Dean's Professor of Finance,
University of Maryland
Senate Committee on the Budget
"Making Wall Street Pay Its Fair Share: Raising Revenue, Strengthening Our Economy"
June 12, 2024

Chairman Whitehouse, Ranking Member Grassley, and Senators of the Committee,

Thank you for the opportunity to testify today on the enormous benefits the American people realize from having a pro-growth tax code. I have been a finance professor for more than twenty years and had the privilege of serving as the Assistant Secretary for Economic Policy at the Department of Treasury from 2019 to 2021. In that role, I worked on the economic projections included with the administration's budget submission, including research on the historic prosperity that was generated following enactment of the Tax Cuts and Jobs Act (TCJA).

Today, the American people are suffering from the harmful effects of inflation and declining real wages. As a result of excessive federal spending and an onerous regulatory approach, the American people have struggled with [average price increases](#) exceeding 19% since President Biden took office. Over that same period, [average weekly earnings](#) have risen just 14.6%. For the average household, their hard work buys \$2,300 less per year than it did just four years ago.

This shock to family budgets is before one incorporates the impact of higher interest rates on the ability of particularly young households who are looking to upgrade their car or purchase their first home. According to [recent work by former Clinton Treasury Secretary and former Obama NEC Director Larry Summers and co-authors](#), the inflation rate over the past couple of years would have been more than twice the stated number if one were to include borrowing costs in the inflation calculation, as was done before 1983. When President Trump left office, the mortgage payment on a loan that would buy the [median priced house](#) in this Nation was approximately \$1,390.¹ At the end of last year, the median priced home would now have a monthly payment of more than \$2,900.

Better policies can reduce inflation. As we saw during the Trump Administration, a focus on American energy dominance, lower federal spending, reigning in the unnecessary regulatory red tape, and pro-growth tax reform are policies that have proven incredibly successful in generating shared economic prosperity.²

The solution is not to raise taxes even further on the American people. [President Biden's Twitter account posted about TCJA](#) "That tax cut is going to expire. If I'm reelected, it's going to stay expired." At the America First Policy Institute, we have estimated that for a family of four making \$100,000, full expiration of TCJA means a tax increase of \$2,275. For a young couple just starting out making a combined \$60,000 who are trying to save for their first home, it means a tax increase of \$700 or more. It's no wonder that [91% of Generation Z](#) consider housing affordability to be a top issue for them.

Today's hearing is about finding new taxes – such as a financial transactions tax -- that would further reduce American's wages, savings, and investment income, all to fund even larger government.

¹ This monthly payment is calculated as the fully amortizing principal and interest payment on the entire purchase price using the [average 30-year mortgage rate](#) in the corresponding quarter.

² For a complete review of the impacts of fiscal policy on inflation, see John Cochrane's "[The Fiscal Theory of the Price Level](#)".

Let's start with setting the facts straight about the tax environment after TCJA was implemented. In fiscal year 2022, [federal receipts](#) were the equivalent of 19 percent of the aggregate economic output of our nation, the second highest since World War II. Between [fiscal year 2017](#) (pre-TCJA) and [fiscal year 2022](#), corporate income tax payments rose from \$297 billion to \$425 billion, an increase of 43%. Personal income tax collections rose from \$1.587 trillion in 2017 to \$2.632 trillion in 2022, an increase of 66%. Over that same five-year period, inflation was 20% (primarily in 2021 and 2022) so these revenues to the federal government grew much faster than inflation.

We do not have a revenue problem; we have a spending problem. Federal outlays between fiscal year 2017 and fiscal year 2022 have grown from \$3.98 trillion to \$6.27 trillion over that same five-year period. According to the Congressional Budget Office's latest ten-year [Budget and Economic Outlook](#), spending for the next ten years will continue to be in the 23% to 24% of GDP range, far in excess of the 20.3% it averaged in the fifty years before the pandemic. While a national emergency may necessitate significant, temporarily elevated spending, such deficit-causing high spending in times of a 4% unemployment rate and moderate economic growth will be inflationary. Running large budget deficits to fund more subsidies for housing, energy, and higher education will just cause prices to rise even further. That is why [Larry Summers](#) characterized the economic policies of this administration as "the least responsible macroeconomic policies we've had in the last 40 years."

Moving to who pays taxes, according to [recent data issued by the Internal Revenue Service](#), in fiscal year 2021 (the latest year for which the data has been made publicly available), the top five percent of households realized 42% of the aggregate adjusted gross income in our country yet paid 65.6% of total federal income taxes. For the top one percent of households, they earned 26.3% of total adjusted gross income but paid 45.8% of total federal income taxes. The bottom 70% of households earned 23.3% of aggregate income but post-TCJA, they are responsible for just 8.2% of federal income taxes. The United States has one of the most progressive income tax codes in the developed world and TCJA made it more progressive. The question each of you have to ask yourself is does paying your fair share mean handing over more than half of every extra dollar earned to the IRS?

On the corporate tax side, our tax code was internationally uncompetitive prior to the changes that were made by TCJA. As stated in the [2018 Economic Report of the President](#), "[i]n 2016, the average top statutory corporate tax rate (combined subnational and national) in OECD countries excluding the U.S. was 24.2 percent, and corporate tax revenue totaled 3.0 percent of GDP. In comparison, the combined (State and Federal) top statutory corporate tax rate in the U.S. was 38.9 percent, while corporate tax revenue was only 2.2 percent of GDP." TCJA lowered the marginal tax rate to 21% and created immediate expensing of new capital equipment purchases (Bonus Depreciation). It also moved the U.S. toward a territorial tax system while imposing limits on the ability of multinationals to move taxable income abroad, and it capped certain deductions. Instead of the U.S. having the highest corporate income tax environment in the industrialized world, TCJA aligned the corporate tax rate with what corporations were paying in much of the rest of the world, further incentivizing economic activity to take place and be

recognized here. The [result](#) was that capital investment accelerated well above what was projected prior to its enactment, more than \$1.7 trillion of foreign capital has been repatriated, and tax inversions have essentially ended.

Allowing many of the pro-growth TCJA provisions to expire and raising the corporate income tax rate would reverse the gains that we have made. While one may think that the higher tax rates would generate greater tax receipts for the government, the Laffer Curve explains that higher rates deter economic activity, so a higher tax rate is paid on less income, potentially resulting in less income for the government, not more. Less economic activity and the same or lower revenue to the government will not solve our budget, inflation, or growth challenges.

Tax reform that is pro-growth is also pro-worker. While some of the changes in corporate tax rates pass through to investors, lower corporate taxes also result in lower prices for consumers and higher wages for working families. [Research by Desai, Foley, and Hines \(2007\)](#) relies on wage data for U.S. multinationals to assess the relative share of the corporate tax burden borne by labor. They find that between 45% and 75% of corporate taxes flow through to employees, implying that the TCJA benefitted American workers directly by lowering their personal tax rates and indirectly by increasing their weekly earnings. [Other recent work](#) finds evidence that consumers likewise bear a significant percentage of increased tax rates through changes in the cost of the goods they rely upon.

This academic work is consistent with the economic prosperity our nation realized immediately following the Trump Administration's enactment of the 2017 Tax Cuts and Jobs Act (TCJA). [Wage growth](#) was faster among workers with lower incomes and those with less than a college degree than among college graduates and those with the highest incomes. Overall, inflation-adjusted income for the typical American family [rose by 10 percent](#) between 2016 and 2019, with incomes jumping a record \$4,400 in 2019 alone. Contrast that with greater government spending, regulation, and ongoing threats of higher taxation from the Biden administration that have resulted in [inflation-adjusted household incomes](#) falling \$2,080 since the year 2020. Excessive taxation at all levels of the income distribution slows down economic activity.

In addition, the economy grew faster after TCJA passage, realizing the longest economic expansion in our Nation's history. During the Obama Administration, growth in [Real Gross Domestic Product](#) averaged 2.0%. During the first three years of the Trump Administration, it rose to 2.8%. What is particularly remarkable about this result is that it occurred toward the end of the expansion. Normally, higher growth would be seen on the front end of an economic expansion when emerging from a recession.

Some are proposing a wealth tax to punish successful entrepreneurs who have created transformational businesses that improve the lives of millions of their fellow Americans. Currently, owners pay income and capital gains taxes when they are liquidating a portion of their ownership stake in their business. When all the capital stays in the business and is reinvested to expand the benefits of their venture for their customers and workers, taxes on the growth in value are deferred and their ownership of their business is unchanged. Taxing unrealized capital gains

would drive away long-term venture capital investments in leading industries like life-saving biotechnology and low-cost, reliable energy where cash flows often are not realized for ten years. To maintain American competitiveness and to continue leading the world in innovation, long-term capital investments should continue to be taxed when earnings are realized, not when it is speculated that they might one day materialize.

Likewise, some are looking to enact a financial transaction tax, which is essentially a fee on trading that will get passed along to the American people. The reason we like low costs on trading financial assets is because it improves price discovery in markets. As new information arises, informed traders alter their portfolio to quickly reflect these changes in economic circumstances. This means that when average Americans who accumulated savings while working and invested that money until they needed it are more likely to be able to originally buy those assets and later sell those investments at efficient prices. Recent work by [Buss and Dumas \(2019\)](#) “incorporate trading fees into a dynamic, multiagent general-equilibrium model” and find that “welfare decline[s] with trading fees, while risk premia and volatilities increase.” Several countries have [enacted and then quickly repealed](#) a Financial Transactions Tax. [Sweden, for instance](#), enacted a financial transactions tax in 1984, after which trading volume declined precipitously. When the tax was finally repealed in its entirety in 1991, trading volumes began growing rapidly once more.

Consistent with these findings, [it was announced last week](#) that a set of investors are looking to open a new stock exchange in Texas to compete with New York. Onerous taxes are one reason why a number of financial firms are looking for alternative places to do business. Higher corporate tax rates, personal tax rates, and financial transactions taxes at the national level will just encourage capital to relocate outside of our shores. Adding higher taxes on top of the growing regulatory burden coming from the SEC would just accelerate the movement of innovation offshore and further degrade our position as the financial capital of the world.

Such a move has serious implications for our national security, not just our economic security. As the world’s reserve currency home to the most liquid, highly capitalized financial markets in the world, we have enormous leverage around the world to monitor financial flows that fund illicit activities such as terrorism, arms dealing, drug smuggling, sex trafficking, and tax evasion. Congress should not erode one of our most important foreign policy tools – the use of sanctions – by creating an environment that encourages financial activity to move outside our jurisdiction.

Yet many of the same people calling for higher corporate and personal income tax rates are advocating that we repeal the cap on deductions for state and local income tax (SALT) payments. Before TCJA, wealthy Americans in states like New York and California faced lower federal income taxes than people earning the same income in other states because the federal income tax code subsidized high-tax state and local governments. The SALT cap meant that well-off individuals in all states had similar federal tax obligations. It also meant that the federal government was no longer offering a perverse incentive to grow state government through this implicit subsidy. According to a [2021 study by the Tax Policy Center](#), “Seventy percent of the benefit [of repealing the \$10,000 federal cap on the state and local tax (SALT) deduction] would

go to those making \$500,000 or more. At the same time, 96 percent of middle-income households, those making between about \$52,000 and \$93,000 annually, would get no tax reduction at all.” Another [2021 study](#) found that over 50 percent of the benefit would accrue to just four states.

Our Nation needs to address the staggering budget deficits that have put us on an unsustainable fiscal path. Rather than raising taxes and taking even more money out of the productive side of our economy, the American people would benefit by repealing the [trillion dollars of green corporate welfare](#) in the IRA, stop the Biden Administration’s illegal student loan forgiveness activities, return non-defense discretionary spending to pre-pandemic levels, and reverse the regulatory burden that has caused inflation and high interest rates that have made debt service costs now larger than what we spend on defense or Medicare.

Hardworking American families deserve federal policies that reward work and raise standards of living. Extending the personal tax rates for individuals and small businesses enables families to spend more of their money on things that make their lives better rather than funding ever-growing government programs.

Thank you for including me in today’s important discussion and I look forward to answering your questions.

Joseph Stiglitz Responses**Chairman Whitehouse**

1. How well is the market currently assessing climate risk?

Current market assessments fail to fully incorporate the considerable short- and long-term impacts of climate change across a broad range of economic indicators, including asset and property values and macroeconomic stability. Despite mounting evidence from scientists, many investors and corporations continue to downplay or ignore the economic threats posed by climate change, both the physical risks (say, associated with the extreme weather events and rising sea levels) and the transitional economic risks (associated with the adjustment of the prices of carbon assets, some of which will become stranded assets). Some people have asserted that climate change is a long-run phenomenon (ignoring that it already is having effects) and so need not be taken into account by the Federal Reserve, for example, which focuses on shorter term stability. That is wrong. Markets are forward looking, but imperfectly so. They episodically realize that they've made a mistake. That happened in the years immediately preceding the 2008 financial crisis, when they realized that many bad mortgages had been made. While many of these mortgages hadn't yet gone bad, the realization that there were a lot that were likely to go bad depressed asset prices upon the realization of the future possibility of losses. So too here: At any moment, we are at risk of facing macroeconomic consequences of the markets' realization of its mispricing.

2. You mentioned the risk of mispriced fossil fuel assets. Is this risk a systemic risk to the broader economy?

Yes. Ignoring the true costs of carbon emissions, inflating the value of fossil fuel assets, and unproductive speculation threatens macro financial stability. The interconnectedness of markets and pervasiveness of fossil fuels heighten the risk for systemic effects.

3. Are there other climate-related systemic risks to the economy? If so, please discuss them.

Certainly. For one, increased destructive climate-related weather events, which can have grave effects on infrastructure and supply chains and cause significant economic losses. There can especially be regional effects, such as Texas's vortex, for which it paid an enormous price. Climate change also poses risk to human health, increasing healthcare costs and straining the healthcare system. These are just a few examples, and policymakers, financial regulators, investors, and corporations must take seriously the economic risks posed by failing to adequately and urgently address the climate crisis.

4. How well is corporate reporting accounting for climate risk?

There is considerable variation in climate risk reporting. Policymakers should do more to increase consistency, transparency, and standardization to improve robustness and reliability. The SEC has undertaken important steps forward.

5. How will the new SEC rule to enhance and standardize climate-related disclosures improve climate risk reporting? How could the rule have been stronger?

This rule is an important first step in requiring companies to disclose their carbon emissions, climate-related risks, and mitigation strategies. Importantly, this rule lays the groundwork for greater consistency and comparability across companies and industries. The final rule scaled back requirements from the original proposal, which would have been a much stronger regulatory framework. I agree with Commissioner Crenshaw, disclosure requirements cannot remain stagnant, and regulators must continue to adapt regulations as climate risk intensifies.¹

Ranking Member Grassley

1. Dr. Stiglitz, in your written testimony you list several “simple reforms that could be done fairly quickly.” These include removing preferential rates for capital gains, taxing assets based on their current value rather than only when gains are realized, and implementing a financial transactions tax, among other proposals. Addressing carried interest and imposing a financial transactions tax were widely discussed at the hearing.

During my question time, I discussed how Democrats did not enact any of these proposals either when they had a Senate super-majority, nor when they used budget reconciliation to ram through corporate handouts in the last congress.

Given Democrats had the ability to enact tax policies on multiple occasions without the need for Republican support, are you disappointed Democrats chose not to address carried interest, enact a financial transaction tax, or implement other policies discussed at the hearing to tax “Wall Street”?

Do you agree with concerns expressed in the publication Jacobin that “Democrats pretended they were cracking down on private equity moguls. The truth: Dems were actually protecting them – perhaps because private equity firms are major Democratic donors”?

I am not fully apprised of the politics. Obviously, I would have been pleased if we had closed the carried interest loophole, enacted a financial transactions tax, or implemented other policies discussed at the hearing. It’s worth noting that Republicans also failed to address any of these issues during their various tax reconciliation bills over the past two

¹ <https://www.sec.gov/news/statement/cresnshaw-statement-mandatory-climate-risk-disclosures-030624>

decades. Policymakers on both sides of the aisle should do more to curtail the influence of private equity on our economy and in policymaking.

2. In 2022, you signed onto a letter endorsing the Inflation Reduction Act (IRA) that argues the bill "...would be more than fully paid for."

Since the IRA was enacted, Goldman Sachs has estimated that the actual cost to the federal government of the energy incentives contained in the IRA could be as much as \$1.2 trillion, rather than the original \$391 billion estimate from CBO and JCT. In a recent publication, CBO increases projections for the cumulative deficit from 2024-2033 by \$428 billion solely due to re-estimations of amounts claimed for clean vehicle and energy-related tax credits.

In its report, CBO states that "[t]he budgetary effects of energy-related tax provisions remain highly uncertain," suggesting the cost of the IRA energy provisions could be even more expensive than now projected.

Do you still believe the IRA was fully paid for?

I have not done the accounting on either side of the ledger. From a social perspective, the benefits of dealing effectively with climate change clearly outweigh the costs. Indeed, I believe that our economy as a whole will benefit from the green transition, and the earlier it does this, the better. To the extent that the IRA is accelerating that transition, that is a net benefit for the economy.

Faulkender Responses to Questions for the Record from Ranking Member Senator Chuck Grassley from the Senate Budget Committee Hearing on June 12, 2024 entitled “Making Wall Street Pay Its Fair Share: Raising Revenue, Strengthening Our Economy”

Thank you for the opportunity to address additional questions that have arisen following my testimony to the committee. Please see my responses below:

Question #1:

My colleagues on the other side of the aisle repeatedly characterized the Tax Cuts and Jobs Act (TCJA) as almost entirely benefitting the wealthy and large corporations.

Isn't it true that all income groups received an individual income tax cut as a result of TCJA and TCJA made our tax code more progressive?

Response:

The table below uses IRS data from 2017 and 2019 to assess the pre-TCJA tax burden compared to after TCJA.

	Top 1 Percent	Top 5 Percent	Top 25 Percent	Top 50 Percent	Bottom 50 Percent
2017 Average Tax Rate	26.76%	23.70%	18.23%	15.99%	4.05%
2017 Gross Income Share	21.04%	36.53%	69.14%	88.75%	11.25%
2017 Income Tax Share	38.47%	59.14%	86.10%	96.89%	3.11%
2019 Average Tax Rate	25.57%	21.98%	16.73%	14.55%	3.54%
2019 Gross Income Share	20.14%	35.93%	68.82%	88.51%	11.49%
2019 Income Tax Share	38.77%	59.44%	86.65%	96.94%	3.06%

Source: <https://www.irs.gov/pub/irs-soi/21in41ts.xls>

What this table shows is that all income groups saw their effective tax rate decline following TCJA implementation. Americans whose income places them in the top one percent of households saw their average tax rate fall from 26.76% in 2017 to 25.57% in 2019. The top 25 percent of households by income saw their average tax rate decline from 18.23% to 16.73% and the bottom half of households saw their average rate decline from 4.05% to 3.54%. Note that the percentage of federal income tax paid by the highest earners increased while their percentage of income declined. In 2017, the top one percent made 21% of the combined gross income in the country but paid 38.5% of the federal income taxes. In 2019, they made 20.1% of the combined gross income but paid 38.8% of the total federal income taxes. Among the bottom 50%, their income rose from 11.25% of the total to 11.49% of total gross income. Yet the portion of federal income taxes paid by the bottom 50% fell from 3.11% to 3.06%. High income households saw the portion of federal income taxes paid by them rise while the bottom 50% saw their portion of

federal income tax payments decline, demonstrating the increase in progressivity brought about by TCJA.

Question #2

In his written testimony, Dr. Stiglitz states, “Those at the top pay a smaller proportion of their true income (especially if we were to include unrealized capital gain) than do the less well off.”

Is it accurate that the tax burden on wealthy taxpayers is less than the burden on the less well off? Does it make sense to include unrealized capital gains as income? What are some of the difficulties inherent to including unrealized capital gains as income?

Response:

As one can see from the table in my response to question #1, using IRS data from both before and after TCJA, as one goes from lower income to higher income households (moving in the table from right to left), the average tax rate rises. The average household earning income in the top one percent paid an effective federal income tax rate in 2019 of 25.57% compared to the 3.54% average effective tax rate of a household in the bottom 50% of households by income. Dr. Stiglitz is incorrect when he says that households at the top pay a smaller percentage of their income in taxes than the less well off. The IRS data conclusively demonstrates that the wealthy pay a significantly higher effective federal income tax rate than do lower income households.

Taxing unrealized capital gains would be exceptionally difficult and produce distortionary behavioral changes. Because market valuations fluctuate over time substantially, investors who make no changes in their portfolios would see potentially very large tax bills in one year and then be requesting refunds the next year. Currently, there are limits on how much investors can offset capital losses against normal income, but if we move from realized capital losses to now include unrealized capital losses, the refundability of taxes on capital losses would have to increase and capital gains receipts to Treasury would increasingly share the volatility of the stock market. Additionally, this would encourage investors to place their assets in less liquid investments that do not have readily available market prices in order to avoid having their wealth marked to market, and thus taxed. Government policy should not discourage investment in US companies, robbing them of the capital necessary to fund innovation, expansion, and thereby improving lives of their fellow Americans. This would be particularly detrimental in situations where capital must be locked up for many years because the timeframe between initial investment and cash flow realization may be a decade or longer. Such taxes would necessitate liquidation of investments in activities that are not generating contemporaneous cash flows, likely harming the very investments that improve the lives of the American people.

Question #3

During the hearing the majority decried what was described as the “tax avoidance industry,” which presumably assists taxpayers in taking advantage of legal ways to reduce taxes owed.

Last congress Democrats rammed through the partisan Inflation Reduction Act (IRA). According to an analysis of Treasury tax expenditure data, the IRA and other legislation signed into law by President Biden increased corporate tax expenditures by 92 percent.

The IRA enhanced and created many corporate subsidies while also adding elective pay and transferability to several of the subsidies, creating a new market for the tax avoidance industry. Isn't it the case the incentives enacted as part of the IRA will greatly expand the "tax avoidance industry" as legions of professionals such as lawyers and accountants will be needed to facilitate and advise on maximizing hundreds of billions of dollars in tax credits?

Response:

Complexity drives the scale of the so-called "tax avoidance industry". A simple tax code does not require investment in intricate knowledge of the tax code and the creation of schemes to take advantage of the code. As the tax code is used to engage in social policy, as was done with the deceptively named Inflation Reduction Act, the increasingly complex tax code implicitly encourages Americans to legally relabel their activities in order to qualify for these deductions, credits, and subsidies. Inevitably, cottage industries develop to assist Americans in taking advantage of loopholes in policy. To the extent that Congress were interested in reallocating the human capital currently used to avoid taxes to potentially more productive activities, it should start by reducing the complexity of the tax code, rather than enacting social engineering laws like the IRA that only create even greater employment for lawyers, lobbyists, and accountants.

Question #4

Recently the Securities and Exchange Commission adopted a rule to enhance and standardize climate-related disclosures by public companies. How costly in your view will this new rule be and what, if any, benefit will it provide investors?

Response:

According to the SEC and reported by the [Wall Street Journal](#), "average annual compliance costs for companies over the first 10 years could range from less than \$197,000 to over \$739,000." This is the cost per company per year. Note that there are more than 4,000 publicly traded companies in the United States so if we use the midpoint of the SEC range and multiply that by 4,000 companies, the annual compliance cost of this rule alone is nearly \$2 billion. That money will be paid for through some combination of higher prices paid by consumers, lower wages for workers, and lower returns for retirement savers and pension plans.

Given that companies are already required to disclose material information to their investors, the American people will not learn anything that will materially alter their assessment of the financial value of these companies. I agree entirely with [former SEC Chairman Jay Clayton](#) who characterized these disclosures as "essentially useless".

Question #5

The majority has suggested that markets are not fully assessing climate risks and that this will lead to an economic shock at some point in the future. In your opinion, how do markets compare physical climate risks to transition risks such as risks associated with government imposed climate policies.

Response:

Markets incorporate the information that they have about material risks into the valuations we observe in financial markets. While markets are not clairvoyant, they have proven efficient over time in assessing the cash flow risks arising from investments in different activities. To the extent that the market does not incorporate a particular activity into the market's valuation of that financial contract, such non-inclusion conveys that the impact is likely of second order consequence.

From the literature I have seen, there is some incorporation of climate risk into financial market prices. However, one must distinguish between physical climate risk and "transition" risks. Given the timeframe that has been forecast of potential climate changes on economic activities (the potential for rising sea levels, changes in temperatures, or frequency and severity of storms), the market appears to have minimally altered valuations of financial assets due to updated forecasts of physical climate risks. On the other hand, markets do appear to have incorporated transition risk – changes in outcomes arising from changes in government policy in its attempt to regulate climate activities. Fear of harmful actions the government may take in its zealous focus on climate risk does appear to have negatively impacted financial market valuations. The result is that critical activities like oil and gas exploration and refining do appear to have declined due to fear of government intervention potentially stranding such assets.

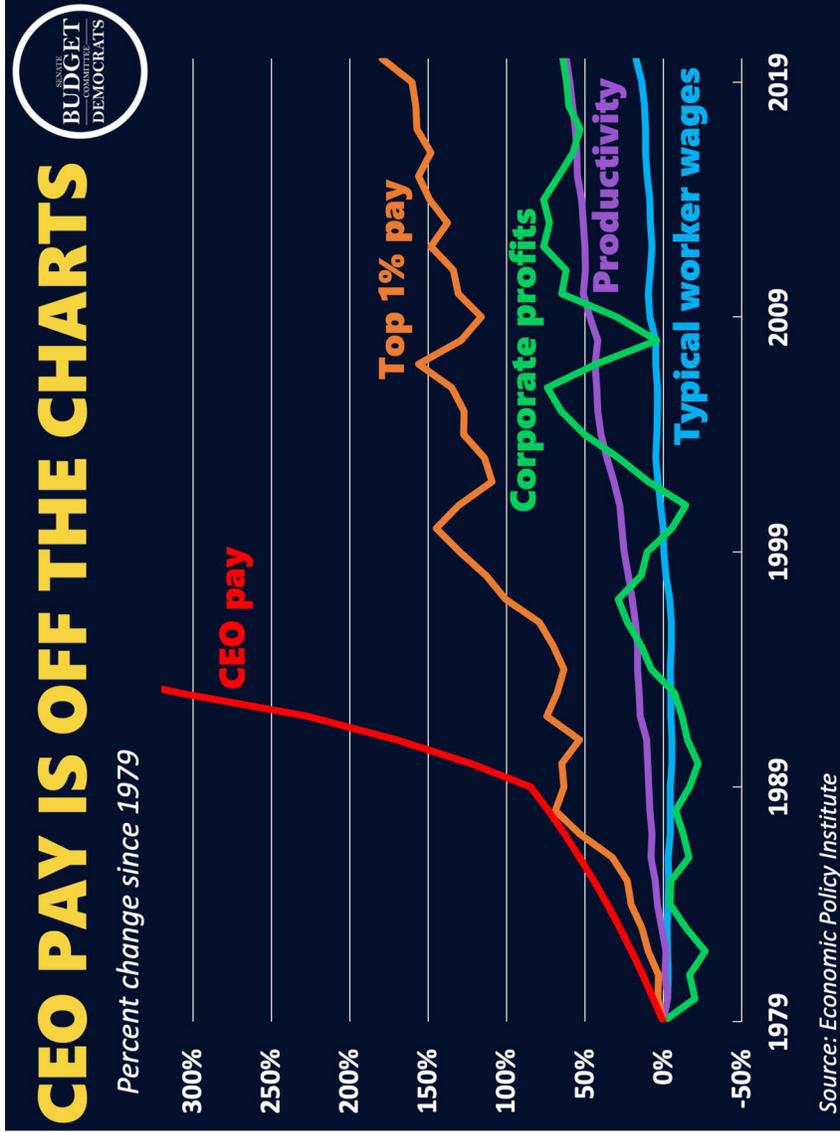
Question #6

A 2023 study published by the National Bureau of Economic Research found "a long-run increase in domestic corporate capital of roughly 7.4 percent due to the TCJA's corporate provisions." The study also estimated a 0.9 percent increase in real wages over the long term. In response to this study, Jason Furman posted to the former Twitter to proclaim that "[t]axes actually do matter."

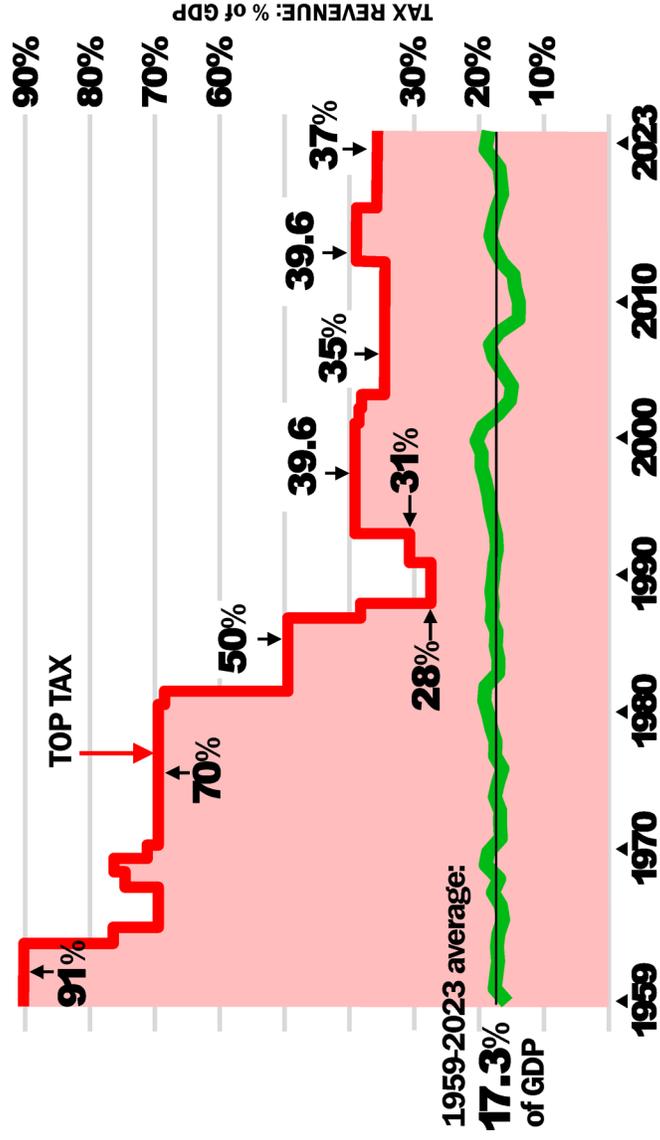
Do you agree that by lowering the corporate income tax rate TCJA has increased investment in the U.S., resulting in higher wages, and has promoted economic growth?

Response:

Absolutely yes. As I wrote in a [report for the America First Policy Institute](#), "capital investment immediately started rising following the 2016 election in anticipation of tax reform and further increased in the quarters around the passage of TCJA." As I stated in my testimony for the record, "[Wage growth](#) was faster among workers with lower incomes and those with less than a college degree than among college graduates and those with the highest incomes. Overall, inflation-adjusted income for the typical American family [rose by 10 percent](#) between 2016 and 2019, with incomes jumping a record \$4,400 in 2019 alone....In addition, the economy grew faster after TCJA passage, realizing the longest economic expansion in our Nation's history. During the Obama Administration, growth in [Real Gross Domestic Product](#) averaged 2.0%. During the first three years of the Trump Administration, it rose to 2.8%. What is particularly remarkable about this result is that it occurred toward the end of the expansion. Normally, higher growth would be seen on the front end of an economic expansion when emerging from a recession."



TAX REVENUE VS. RATES



Office of Management and Budget, Internal Revenue Service